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**Supreme Court of the United States**

**OCTOBER TERM, 1947**

**No. 390**

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**SEABOARD AIR LINE RAILROAD COMPANY,  
APPELLANT,**

**vs.**

**JOHN M. DANIEL, AS ATTORNEY GENERAL OF  
THE STATE OF SOUTH CAROLINA, AND W. P.  
BLACKWELL, AS SECRETARY OF STATE OF  
SOUTH CAROLINA**

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**APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA**

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**FILED OCTOBER 7, 1947.**

# SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1947

No. 390

SEABOARD AIR LINE RAILROAD COMPANY,  
APPELLANT,

vs.

JOHN M. DANIEL, AS ATTORNEY GENERAL OF  
THE STATE OF SOUTH CAROLINA, AND W. P.  
BLACKWELL, AS SECRETARY OF STATE OF  
SOUTH CAROLINA

APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA

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## **RULE TO SHOW CAUSE AND TEMPORARY RESTRAINING ORDER**

Consideration of the verified complaint discloses that it raises important public questions. These involve the duties of the Attorney General and Secretary of State, two of the constitutional officers of this State, and the legality of the ownership and operation in this State of one of the three interstate trunk line railroad systems serving South Carolina. Many citizens, as well as other persons, firms and corporations doing business in this State, are interested, directly and indirectly, in the prompt settlement of these questions. They are of both a public and emergency character. The Court for these reasons, takes the action in its original jurisdiction, subject to the decision on the Court as a whole; and

IT IS ORDERED That the defendants and each of them do show cause, if any they have, before the Supreme Court of South Carolina, in the Court Room in the State Capitol, at Columbia, South Carolina, on Monday, October 14, 1946, at ten o'clock in the forenoon, or as soon thereafter as the matter can be heard by the Court, why the relief prayed for in the complaint should not be granted; and that the defendants and each of them serve their return upon plaintiff's attorneys at No. 1207 Liberty Life Building, Columbia 7, South Carolina, within twenty days of the service hereof, exclusive of the day of such service; and

IT IS FURTHER ORDERED that, in the meanwhile and pending the further order of the Supreme Court, the defendant, the Honorable John M. Daniel, as Attorney General of South Carolina, be and he is

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hereby restrained from enforcing or attempting to enforce section 7784 or section 7789 of the Code of Laws of South Carolina, 1942, against plaintiff, or collecting or attempting to collect any penalties therein prescribed from plaintiff.

Let this order and the verified complaint, together with the three exhibits to be filed therewith, be forthwith filed with the Clerk of the Supreme Court, and served on the defendants without delay.

(Signed) D. GORDON BAKER,

*Chief Justice, Supreme Court  
of South Carolina.*

Florence, S. C.,  
August 7, 1946.

### COMPLAINT

*To the Honorable the Chief Justice and the Associate  
Justices of the Supreme Court of South Carolina:*

The complaint of Seaboard Air Line Railroad Company against the Honorable John M. Daniel, as Attorney General of the State of South Carolina, and the Honorable W. P. Blackwell, as Secretary of State of the State of South Carolina, respectfully alleges that:

1. Plaintiff Seaboard Air Line Railroad Company is a corporation organized and existing under the laws of the State of Virginia, having its principal office and place of business in the City of Norfolk, in said State, and brings this action asking this Honorable Court to adjudge and protect plaintiff's rights under the Constitution and the Interstate Commerce Act of the United States, in the particulars and for the reasons hereinafter more fully set forth.

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2. Defendant, the Honorable John M. Daniel, is the duly elected, qualified and acting Attorney General of the State of South Carolina, and defendant, the Honorable W. P. Blackwell, is the duly elected, qualified and acting Secretary of State of the State of South Carolina.

3. On June 28, 1946, the Interstate Commerce Commission, as later more fully shown, acting pursuant to the authority conferred upon it by Section 5 of the Interstate Commerce Act (49 U. S. C. A., 5), issued its Report and Order in the proceedings before it relating to the reorganization of Seaboard Air Line Railway Company (hereinafter sometimes referred to as the "old company"), finding and ordering that plaintiff, in order to own and operate its railroad lines and other properties in South Carolina, is not required to comply with Section 8 of Article 9 of the Constitution of South Carolina and with Sections 7777 through 7779 of the Code of South Carolina of 1942, requiring plaintiff to incorporate as a corporation of the State of South Carolina; and finding and ordering that compliance with said constitutional and statutory provisions would effect an unnecessary and undue burden upon interstate commerce and would not be consistent with the public interest. 10

4. Plaintiff is the successor in ownership and operation of the properties of the old company constituting an extensive railroad system, comprising approximately 4,200 miles of railroad lines within and through the States of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama, and, as such, plaintiff is a common carrier of freight and passengers by railroad, subject to the provisions of the Acts of Congress relating to interstate commerce. Plaintiff 11 12

## Seaboard Air Line R. R. Co. v. Daniel et al.

was organized for the purpose of carrying out the Plan of Reorganization of said old company which has been approved by the Interstate Commerce Commission and the District Courts of the United States for the Eastern District of Virginia and the Southern District of Florida, which are respectively the courts of primary and ancillary jurisdiction of the proceedings for the reorganization of the old company.

Pursuant to such Plan and with the approval of the Interstate Commerce Commission, under Section 5 of the Interstate Commerce Act (499 U. S. C. A., 5), plaintiff has acquired and is now operating the properties formerly belonging to the old company. Included in such properties now owned and operated by plaintiff, are 736 miles of railroad located in thirty counties of the State of South Carolina, including 136 miles of the main line extending from Monroe, North Carolina, to Atlanta, Georgia, 205 miles of the main north and south line of the Seaboard system between Hamlet, North Carolina, by way of Columbia, South Carolina, to Savannah, Georgia, and approximately 370 miles of the line extending from Hamlet, North Carolina, to Savannah, Georgia, by way of Charleston, South Carolina. In addition plaintiff owns over 600 separate tracts of miscellaneous real estate located in the State of South Carolina which are appurtenant to or are used or useful in connection with the operation of its system of railroads.

5. Pursuant to Section 5 of the Interstate Commerce Act (49 U. S. C. A., 5), plaintiff filed with the Interstate Commerce Commission its Application dated March 8, 1944, and thereafter its Supplemental Application and Amendment No. 2, dated January 23, 1946, a true copy of the latter being filed herewith as Ex-



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hibit "A". By said Applications plaintiff sought authority to acquire and operate, on the terms and conditions, and to the extent contemplated by the Plan of Reorganization of the old company, the railroad lines and other properties of the old company. Said Supplemental Application and Amendment No. 2, among other things, alleged in paragraph Eleventh, page 16:

"Applicant proposes to qualify to do business as a foreign corporation in North Carolina, Georgia, Alabama, and Florida. The Constitution of South Carolina prohibits acquisition or operation by a foreign corporation of lines of railroad in South Carolina. It is not in the public interest that Applicant should be required to become a corporation of South Carolina, as well as of Virginia, and the requirement referred to is a substantial burden on interstate commerce. Applicant is advised that it will have power to acquire and operate the property in South Carolina described in the Amended Application, irrespective of said provisions of the Constitution of South Carolina, if such acquisition and operation shall be authorized by the Interstate Commerce Commission."

Plaintiff alleges, upon information and belief, that in accordance with the provisions of Section 5(2)(b) of the Interstate Commerce Act (49 U. S. C. A., 5(2)(b)) the Commission notified the Governor of the State of South Carolina of the pendency of plaintiff's Application and also of the filing of said Supplemental Application and Amendment No. 2 and afforded the Governor of South Carolina reasonable opportunity to be heard thereon, as required by the Interstate Commerce Act.

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6. On June 28, 1946, the Commission by its Report and Order of that date, true copies of which are filed herewith as Exhibits B and C, respectively, approved the acquisition and operation by plaintiff of the lines of railroad and properties formerly owned by the old company, including said lines of railroad and properties located in the State of South Carolina. In said Report the Interstate Commerce Commission found *inter alia* as follows:

LIMITATIONS AND PROHIBITIONS  
OF STATE LAWS

“Of the railroad to be acquired by the new company, 736 miles are located in the State of South Carolina. This includes 136 miles of the main line extending from Monroe, N. C., to Atlanta, Ga., 205 miles of the main north and south line of the system between Hamlet, N. C., via Columbia, S. C.; to Savannah, Ga., and approximately 370 miles of main-line mileage comprising substantially all of what is known as the ‘East Carolina Lines’. In addition to the railroad mileage there are over 600 separate tracts of miscellaneous real properties located in South Carolina which are appurtenant to, or are used or useful in connection with the operation of, the railroad properties. The State of South Carolina has in its constitution a prohibition against the ownership and operation of railroads within the State by corporations of other states.

“There are provisions in the statutes of the State similar to the constitutional prohibition.

“To comply with the provisions of the constitution and statutes of South Carolina, it would be

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necessary for the new company either (a) to form a separate subsidiary corporation to own and operate the system railroad in South Carolina, or (b) to form a separate South Carolina corporation and then consolidate that corporation with itself so that the resultant corporation would be a corporation both of South Carolina and Virginia. Either course would result in substantial expense. If a separate corporation were organized to own the South Carolina properties, those properties could not be leased to the Virginia corporation, but would have to be operated separately, requiring the maintenance of a separate corporate organization and of separate executive, operating and accounting organizations. This would involve an initial outlay estimated at \$18,300 and continuing expenses estimated at approximately \$305,000 a year. Creation of a separate South Carolina corporation and a subsequent consolidation would require an initial outlay estimated at \$71,800 and continuing expenses estimated at approximately \$1,000 a year, and would result in substantial difficulties for the new company both in effecting the reorganization of the properties and in the future conduct of the new company's affairs. For example the constitution of South Carolina requires the general assembly to provide by law for the cumulative voting of stock in the election of directors, and the State statutes make such cumulative voting mandatory for all corporations of the State, including railroad corporations. The plan of reorganization does not contemplate, or permit, that the new company's stock shall have such cumulative voting rights, and to give the stock such

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rights at this time would involve a modification of the plan, which the new company is advised would require resubmission of the plan to the courts.

"It is argued that the restrictions imposed upon foreign railroad corporations by the constitution and statutes of South Carolina constitute a burden on interstate commerce which we have full power under the provisions of section 5 of the act to override. *Texarkana & F. S. Ry. Control*, 193 I. C. C. 521; *Kansas City Southern Ry. Co. Merger*, 254 I. C. C. 529; *Texas v. United States*, 292 U. S. 522. The new company is advised that if we authorized it to acquire and operate the properties of the system located in South Carolina it will have the power to do so irrespective of those restrictions. It suggests, however, that to avoid complications and trouble for the new company our report in these proceedings should contain specific reference to these restrictive provisions so as to show on its face that our order is intended to override them.

"The total operating revenues assigned in 1945 to the 736 miles of system railroad located in South Carolina amounted to over \$25,000,000. Such revenues for 1940 were \$7,700,000. For a normal year it is anticipated that they will be less than in 1945. The chief finance and accounting officer for the receivers says that the estimated expenses of maintaining a separate corporation to own and operate the railroad in South Carolina have been stated on a conservative basis and might not be materially reduced even though total operating revenues of the railroad in South Car-

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olina were to decline to \$7,000,000 or \$8,000,000 a year.

"It would clearly be an unnecessary and undue burden on interstate commerce for the new company to be subjected to continuing expenses of over \$300,000 a year to maintain a separate corporation to own and operate the railroad in South Carolina. It is not so clear, however, that the cost of organizing a corporation under the laws of South Carolina to acquire the properties in that State and thereafter consolidate the South Carolina corporation with the Virginia corporation, viz, \$71,800, or the cost of maintaining the consolidated corporation as a South Carolina corporation, viz. \$1,000 a year, would be unduly burdensome. Organization of a South Carolina corporation, and consolidation with the Virginia corporation, however, would cause substantial delay and needless expense. In *Texas v. United States*, *supra*, the Supreme Court, in discussing the purpose of the provisions of section 5 of the act, said (p. 530):

"These broadening provisions of the Emergency Railroad Transportation Act, 1933, confirm and carry forward the purpose which led to the enactment of Transportation Act, 1920. . . . We found that Transportation Act, 1920, introduced into the federal legislation a new railroad policy, seeking to insure an adequate transportation service. . . . It is a primary aim of that policy to secure the avoidance of waste. . . . The authority given to the Commission to authorize consolidations, purchases, leases, operating contracts, and acquisition of control, was given in



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aid of that policy. \* \* \* The criterion to be applied by the Commission in the exercise of its authority to approve such transactions—a criterion reaffirmed by the amendments of Emergency Railroad Transportation Act, 1933—is that of the controlling public interest. \* \* \*

“The provisions of section 5 were further amended by the Transportation Act of 1940 which contains a declaration of the national transportation policy. The provisions as to relief from restraints, limitations and prohibitions of State law which would stand in the way of the execution of the policy of Congress were clarified and strengthened. In administering the provisions of section 5 and other provisions of the act we must do so with a view to carrying out the declared policy of Congress, including the promotion of economical and efficient service and the fostering of sound economic conditions in transportation. Corporate simplification wherever possible is in accord with this policy. Furthermore, a termination of a longstanding receivership of railroad properties is always a matter of substantial public interest. The delays that would result and the needless expense that would be incurred should the new company undertake to comply with the constitution and statutes of South Carolina requiring the creation of a separate corporation to acquire, or to acquire and operate, the railroad which the new company proposes to acquire and operate in that State would not accord with the national transportation policy and would not be consistent with the public interest.

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"The provisions of section 5(11) will relieve the new company of the restraints, limitations and prohibitions of State law only insofar as may be necessary to enable it to carry into effect the transactions approved and provided for in accordance with the terms and conditions which we impose, and to hold, maintain, and operate any properties, and exercise any control or franchises acquired through such transactions."

The first and second paragraphs of the Order of the Commission, issued on June 28, 1946, upon said Report, are as follows:

"Further investigation of the matters and things involved in these proceedings having been made, hearings having been held and said division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof:

"It is ordered, That, subject to the conditions with respect to the protection of employees stated in said report, the purchase by the Seaboard Air Line Railroad Company of the railroad properties and other assets of the Seaboard Air Line Railway Company or its receivers, or both, and the operation by the former of such railroads, including those operated under contract, lease or agreement, and the acquisition of control or joint control by the Seaboard Air Line Railroad Company through ownership of capital stock of certain other railroad companies and the Baltimore Steam Packet Company, described in the report aforesaid, upon the terms and conditions in said

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report found just and reasonable, be, and it is hereby approved and authorized."

7. On or about the 6th day of August, 1946, plaintiff applied to the defendant, Honorable W. P. Blackwell, as Secretary of State of South Carolina, for admission to do business in South Carolina as a foreign corporation, pursuant to Sections 7765, 7766 and 7767 of the Code of 1942, by tendering to him for filing a written stipulation or declaration, in due form, together with all copies and statements, as well as fees, required by said sections. At the same time, plaintiff exhibited to the Secretary of State certified copies of the Report and Order of the Interstate Commerce Commission aforesaid and explained by letter (a duplicate original of which is herewith filed as Exhibit D) that thereby plaintiff was lawfully relieved from compliance with the provisions of Section 8 of Article 9 of the Constitution and Sections 7777 through 7779 of the Code of South Carolina of 1942, and that plaintiff was entitled to be admitted under Sections 7765, 7766 and 7767 of the Code of 1942. But said defendant notwithstanding that it was his plain ministerial duty to accept said tender and file said documents, declined so to do.

Plaintiff alleges that the defendant Secretary of State, in acting as aforesaid, relied upon the provisions of Section 8 of Article 9 of the Constitution of South Carolina and of Sections 7777, 7778 and 7779 of the Code of 1942, and that such provisions were so construed and applied contrary to the Order of the Commission issued pursuant to the authority of Section 5 of the Interstate Commerce Act. Such action violated the rights specifically vested in plaintiff by and under the provisions of said Section 5 of the Interstate Commerce Act. As so construed and applied by the de-

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endants, said provisions of the Constitution and statutes of South Carolina, and the acts of the defendants aforesaid, were and are in violation of the provisions of Section 8 of Article 1, of, and the due process and equal protection clauses of the Fourteenth Amendment to, the Constitution of the United States.

Plaintiff further alleges that the Order of the Commission, based upon its findings, affirmatively authorizes plaintiff to own and operate its railroad lines and other properties in South Carolina without complying with said provisions of the Constitution or statutes of this State. And plaintiff further alleges that, by reason of the foregoing, the Secretary of State should have accepted plaintiff's tender of compliance with the statutes of this State (Sections 7765, 7766 and 7767 of the Code of 1942) prescribing the terms and conditions upon which foreign corporations generally are admitted to transact business within South Carolina. 50

8. In connection with Section 7784 of the Code, which is a section imposing penalties, plaintiff points out that this section was Section 5 of the Act of 1902 (23 Stats., 1054) and properly appears in the Code. Plaintiff further points out that Section 7789 of the Code is another section imposing penalties, which, by reason of its appearance in the Code, might be held to be effective. Plaintiff alleges, however, that Section 7789 erroneously and improperly appears in the Code, because it was Section 4 of the Act of 1896 as amended in 1897 (22 Stats., 114, 514), and that said Act of 1896 was repealed by said Act of 1902. The penalty provisions of Section 7789 are, however, the same as those of Section 7784, and plaintiff hereafter refers to both sections in its allegations concerning the penalties. 51 54

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9. Sections 7784 and 7789 of the Code provide in substance that it shall be unlawful for plaintiff to own or operate its lines of railroad and other properties in South Carolina without either becoming incorporated under the laws of South Carolina or consolidating with a corporation organized under the laws of said State and thereby becoming a South Carolina corporation; and each of said sections provides a penalty of \$500.00 for each and every county in which plaintiff shall operate or attempt to operate its lines of railroad without so doing. Plaintiff construes said sections, upon the advice of counsel, as imposing such penalties for each day of operation. By Section 7784 it is made the duty of the defendant Attorney General to bring suit for the recovery of such penalties for each and every offense, and plaintiff alleges, that the defendant Attorney General asserts the validity of the said State constitutional and statutory provisions, notwithstanding the provisions of the Report and Order of the Interstate Commerce Commission and of Section 5 of the Interstate Commerce Act.

10. The statutes of South Carolina provide no method by which plaintiff can test in advance the validity as to plaintiff of Section 8 of Article 9 of the Constitution of South Carolina and Sections 7777, 7778, 7779, 7784, 7785 and 7789 of the Code. Plaintiff is confronted with the dilemma of either disobeying the Order of the Interstate Commerce Commission and failing to perform its public duties as a common carrier in South Carolina, or of subjecting itself to the danger of repeated suits in thirty different counties for the recovery of fines and penalties imposed by Sections 7784 and 7789. In these circumstances, plaintiff respectfully avers that it is entitled to invoke the jur-



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isdiction of this Honorable Court in its original jurisdiction to test the validity as to plaintiff of the South Carolina constitutional and statutory provisions aforesaid; and, pending final hearing, to be awarded an order restraining the enforcement of said penalties, because said sections penalize the operation by plaintiff of its railroad and properties without plaintiff being accorded an advance opportunity to test the validity as to plaintiff of said provisions in the courts before becoming subject to enormous penalties (amounting to \$15,000.00 for each and every day of operation during any two-year period before the bar of the statute of limitations (390(2) Code)). And the effect of said statutes is to require plaintiff to elect at its peril between disobedience to the Order of the Interstate Commerce Commission and subjection to such penalties, if such statutes should be held to be enforceable, the Order of the Interstate Commerce Commission and the provisions of the Interstate Commerce Act to the contrary notwithstanding. Plaintiff is thereby deprived of its property without due process of law and is denied the equal protection of the laws in violation of the Fourteenth Amendment to the Constitution of the United States.

Plaintiff avers that it has no adequate way of testing such question in advance save by this action in this Honorable Court. If plaintiff should form a corporation to operate its lines of railroad and properties in South Carolina, or should consolidate with a corporation organized under the laws of South Carolina and become a South Carolina corporation, it would be contrary to the Plan of Reorganization and to the Order of the Interstate Commerce Commission and would, moreover, recognize the validity of said provisions of

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the Constitution and laws of South Carolina as to plaintiff, which plaintiff denies; and so long as plaintiff fails to comply with said provisions, it will be, on the election of the defendant Attorney General, subject to many suits to recover separate and cumulative penalties during each day that plaintiff's failure may continue.

11. Plaintiff is advised by counsel and alleges that if the constitutional and statutory provisions herein attacked be held not valid as to plaintiff and plaintiff is permitted to qualify to do business in South Carolina as a foreign corporation, it will be subject to all laws of this State having appropriate relation to the supervision of this State over railroads within its borders, in the same manner and to the same extent as the old company was; including all matters essentially of state concern, such as all manner and kind of regulation (police and otherwise), directly by the state or municipal corporations, or other lawful agencies of either, such as the Public Service Commission and Boards of Health; as to all taxes, including *ad valorem*, franchise or license, and income; and as to all matters relating to the jurisdiction of all courts, including service of process and venue.

12. Plaintiff alleges as an additional basis for the original jurisdiction of this Honorable Court in this suit that plaintiff's credit and financial future will be impaired and imperiled by the existence of a contingent liability of the size and character that would result from the accumulation of the penalties under Sections 7784 and 7789, amounting during any two-year period to approximately \$10,000,000.00, before the bar by the statute of limitations applies (Section 390(2) of the Code), so that plaintiff has no adequate remedy

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at law; and plaintiff will be under serious threat of destruction of its credit and ability to perform its public duties as a common carrier, contrary to its rights under the Constitution and statute of the United States aforesaid, unless this Honorable Court will take this complaint into its original jurisdiction and protect plaintiff in the enjoyment of such rights by affirming the same and perpetually enjoining any violation thereof.

The original jurisdiction of this Honorable Court is also invoked because of the importance, public and emergency character of the questions involved, and the public interest in their prompt adjudication, to wit:

(a) Whether plaintiff is relieved from the prohibitions of the Constitution and statutes of this State, including the penalties imposed by the latter, as a legal consequence of the approval and authorization by the Interstate Commerce Commission in its Report and Order aforesaid, by virtue of the provisions of Section 5(11) of the Interstate Commerce Act (49 U. S. C. A. 5(11))?

(b) What is the duty of the Attorney General with reference to the penalties imposed by Sections 7784 and 7789 of the Code?

(c) What is the duty of the Secretary of State with reference to accepting and filing the written stipulation or declaration tendered him by plaintiff under Section 7765 of the Code?

(d) The public interest involved is the direct and indirect interest of many citizens of this State and of many persons, firms and corporations doing business in this State in the sound financial status and ability of plaintiff, as the owner and operator of one of the three large interstate systems of railroad serving this

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State, so that plaintiff may properly discharge its public duties and render adequate service to the public.

Wherefore plaintiff prays:

1. That this Honorable Court adjudge that plaintiff is entitled to own and operate its railroad lines and other properties in South Carolina, without complying with Section 8 of Article 9 of the Constitution or Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina 1942:

2. That the defendant Secretary of State be required to accept and file the papers and documents tendered him by plaintiff under Sections 7765 and 7766 of the Code of Laws of South Carolina 1942, upon the payment of the fees prescribed by Section 7767.

3. That the defendant Attorney General be perpetually enjoined from enforcing, or attempting to enforce, Section 7784 or Section 7789 of the Code of Laws of South Carolina 1942 against plaintiff, or collecting, or attempting to collect, any penalties therein prescribed from plaintiff; and that he be temporarily so restrained pending the further order of this Honorable Court.

4. For such other and further relief as may be just and equitable in the premises.

J. B. S. LYLES,

Columbia, S. C.,

W. R. C. COCKE,

Norfolk, Virginia.

*Attorneys for Plaintiff.*

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STATE OF SOUTH CAROLINA, }

COUNTY OF RICHLAND. }

Personally appears W. R. C. Cocke, who, on oath, says that he is an officer, to wit, General Counsel of Seaboard Air Line Railroad Company, a corporation and the plaintiff herein, duly elected by the Board of Directors of plaintiff, and makes this verification on its behalf, being thereunto duly authorized; that he has read the above complaint and that all the allegations thereof are true of his own knowledge, except as to those made on information and belief, and, as to those, that he believes them to be true. 73

Deponent further says that he is an attorney at law, duly admitted to practice in the State of Virginia and other States, and a citizen of said State, being a resident of the City of Norfolk, and is one of the attorneys for plaintiff herein.

Deponent further says that he has been General Counsel for the Receivers of Seaboard Air Line Railway Company, the old company mentioned in the complaint, since the appointment of the Receivers on December 23, 1930, and by reason thereof has become personally familiar with the reorganization proceedings before the Courts and the Interstate Commerce Commission referred to in the complaint; that by reason of the foregoing deponent has acquired personal knowledge concerning all allegations of the complaint and knows them to be true, except the allegation in the last paragraph of section 5, with reference to notice extended the Governor by the Interstate Commerce 75



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Commission, which is made on information obtained from said Commission that he believes to be true.

W. R. C. COCKE,

Sworn to and subscribed before  
me this 6th day of August, 1946.

BERTA WALLACE (L.S.)

*Nortary Public for South Carolina.*

My Commission expires at the  
pleasure of the Governor.

STATE OF SOUTH CAROLINIA  
IN THE SUPREME COURT

IN THE ORIGINAL JURISDICTION

*Seaboard Air Line Railroad Com-  
pany, Plaintiff,*

*against*

*John M. Daniel, as Attorney Gen-  
eral of the State of South Caro-  
lina, and W. P. Blackwell, as Sec-  
retary of State of the State of  
South Carolina, Defendants.*

SUMMONS

*To the Defendants above named:*

You are hereby summoned and required to answer the complaint in this action, of which a copy is herewith served upon you, and to serve a copy of your answer to said complaint upon the subscribers at their office, No. 1207 Liberty Life Building, Columbia 7, South Carolina, within twenty days after the service hereof, exclusive of the day of such service; and if you fail to answer the complaint within the time afore-

**SUPREME COURT**

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said, the plaintiff in this action will apply to the court for the relief demanded in the complaint.

W. R. C. Corbin,  
Norfolk, Virginia,

J. B. S. LYLES,  
Columbia, S. C.,

*Attorneys for Plaintiff.*

August 6, 1946.

**EXHIBIT "A"**

**INTERSTATE COMMERCE COMMISSION**

**WASHINGTON**

I, W. P. BARTEL, Secretary of the INTERSTATE COMMERCE COMMISSION, do hereby certify that the attached is true copy of Supplemental Application and Amendment No. 2, filed January 31, 1946, in Finance Docket No. 14501, Seaboard Railway Company (Now Seaboard Air Line Railroad Company) Acquisition, the original of which is now on file and of record in the office of said Commission.

IN WITNESS WHEREOF I have  
hereunto set my hand and affixed the  
Seal of said Commission this 25th day  
of July, A. D. 1946.

W. P. BARTEL,

*Secretary of the Interstate  
Commerce Commission.*

(SEAL)

(Filed Jan. 31, 1946.)

Seaboard Air Line R. R. Co. v. Daniel et al.

BEFORE THE  
INTERSTATE COMMERCE COMMISSION

Finance Docket No. 14,501

In the Matter of the Application

of

SEABOARD RAILWAY COMPANY

Under Section 5 of the Interstate Commerce Act for authority to acquire or lease the properties of certain carriers, to acquire trackage rights over, or joint use of, the properties of certain carriers and to acquire sole control of, or joint control of certain carriers.

SUPPLEMENTAL APPLICATION AND  
AMENDMENT NO. 2

LEONARD D. ADKINS,  
*Counsel.*

New York, N. Y.  
January 23, 1946.

BEFORE THE  
INTERSTATE COMMERCE COMMISSION

IN THE MATTER OF THE APPLICATION

of

SEABOARD RAILWAY COMPANY, under Section 5 of the Interstate Commerce Act for authority to acquire or lease the properties of certain carriers, to acquire trackage rights over, or joint use of, the properties of certain carriers and to acquire sole control of, or joint control of certain carriers.

Finance  
Docket  
No. 14501.

## SUPPLEMENTAL APPLICATION AND

## AMENDMENT NO. 2

*Seaboard Air Line Railroad Company*, the appli-  
cant, under its former name Seaboard Railway Com-  
pany, heretofore filed with the Commission in this Fi-  
nance Docket No. 14501 its application, dated March  
8, 1944, and Amendment No. 1 thereto, dated April 11,  
1944 (said Application, as amended by said Amend-  
ment No. 1, being hereinafter called the Application),  
for authority to acquire, on the terms and conditions  
and to the extent contemplated by the Plan of Reor-  
ganization of Seaboard Air Line Railway Company  
and certain of its affiliated companies (hereinafter and  
in the Application called the Plan, a copy of the Plan  
being Exhibit D to Applicant's application in Finance  
Docket No. 14500, hereinafter called the Securities Ap-  
plication), properties, control, leasehold interests,  
trackage rights and rights of joint use, as specified in  
the Application. As stated in the Application, the Ap-  
plicant was organized for the purpose of carrying out  
the Plan and it is contemplated that the Applicant will  
acquire all or substantially all the assets of Seaboard  
Air Line Railway Company (hereinafter and in the  
Application called the Old Company) and of certain of  
its affiliated companies.

On September 6, 1944, the Applicant filed with the  
Commission in this Finance Docket No. 14501 its Sup-  
plemental Application No. 1 (hereinafter called the  
Seaboard-All Florida Application) for authority to  
acquire, upon the terms set forth in the Seaboard-All  
Florida Application, the properties of Seaboard-All  
Florida Railway, Florida Western & Northern Rail-  
road Company and East and West Coast Railway  
(hereinafter and in the Seaboard-All Florida Applica-

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tion called the Seaboard-All Florida Properties). By report and order, dated September 30, 1944, the Commission authorized the purchase by the Applicant of the Seaboard-All Florida Properties upon the terms and conditions in said report found just and reasonable and in the manner therein described. A sale under foreclosure of the Seaboard-All Florida Properties to the Applicant was duly confirmed on October 2, 1945, by the District Court of the United States for the Southern District of Florida (hereinafter called the Florida Court) and a certified copy of the decree of the Florida Court confirming the sale has heretofore been filed in this Finance Docket No. 14501. All appeals from the orders authorizing and confirming the sale of the All Florida Properties to the Applicant have been finally disposed of.

The District Court of the United States for the Eastern District of Virginia (hereinafter called the Virginia Court) and the Florida Court (hereinafter collectively called the Courts), by Final Decree of Foreclosure and Sale (hereinafter called the Decree), dated April 12, 1945, directed the sale under foreclosure of the properties hereinafter described, which are hereinafter called the Foreclosed Properties. The Foreclosed Properties comprise (1) all properties of every kind, character and description of the Old Company on hand at May 31, 1945, other than the right of the Old Company to exist as a corporation and a reserve of cash or temporary cash investments in the amount of \$10,000,000.00 plus an amount equal to the current liabilities of Leigh R. Powell, Jr., and Henry W. Anderson, as Receivers of the Old Company (hereinafter called the Seaboard Receivers) as of May 31, 1945, as shown by their books, for the payment of (a) such



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costs, expenses, allowances, compensation and disbursements as the Courts shall hereafter find to be properly chargeable against the receivership estate, (b) the liabilities of the Receivers for Federal income and excess profits taxes up to May 31, 1945, and (c) all expenses made and liabilities incurred by the Receivers in the discharge of their duty up to May 31, 1945, (2) all right, title and interest of the Receivers and the Old Company in and to all improvements made by the Receivers, between May 31, 1945, and the date of delivery to the Applicant of deeds to the Foreclosed Properties (hereinafter called the Delivery Date), to the Foreclosed Properties and to the leased lines now operated by the Receivers, and (3) all additional real property, railroad equipment or other assets (other than current assets) acquired by the Receivers between May 31, 1945, and the Delivery Date, for use in connection with the operation of such properties.

The sale under foreclosure (hereinafter called the Foreclosure Sale) was duly held on May 31, 1945. The Reorganization Committee was the only bidder at the Foreclosure Sale and the Foreclosed Properties were sold as an entirety to the Reorganization Committee for \$52,000,500.00 subject to the terms of the Decree (including appropriate accounting, as provided in the Decree, in respect of the property described in clauses (2) and (3) of the last preceding paragraph) and to confirmation by the Courts. On June 29, 1945, the sale to the Reorganization Committee at the price of \$52,000,500.00 (\$500.00 in excess of the upset price fixed by the Decree) was duly confirmed and made absolute by the Courts by a Decree Confirming Sale, dated June 29, 1945.

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The Foreclosed Properties include (1) the lines of  
101 railroad of the Old Company specified at pages 21 to  
25, both inclusive, of Item XXII of the Application,  
as hereby amended (the Application, as amended and  
supplemented by this Supplemental Application and  
Amendment No. 2, being hereinafter called the  
Amended Application), (2) the shares of stock speci-  
fied in subdivision (B), on pages 2 to 5, both inclusive,  
of the Amended Application, as being owned by the  
Old Company or held for the benefit of the receiver-  
ship estate of the Old Company by the Receivers, (3)  
102 the additional securities stated in Articles Third and  
Fourth of this Supplemental Application and Amend-  
ment No. 2 to be included in the Foreclosed Proper-  
ties, (4) the leasehold interests of the Old Company  
or the Receivers specified in subdivision (C) at page  
6 of the Amended Application, and (5) the trackage  
and joint use rights of the Old Company or the Re-  
ceivers specified in subdivision (D) at pages 7 to 10,  
both inclusive, of the Application.

By an Agreement dated May 25, 1945, between the  
103 Reorganization Committee and the Applicant (herein-  
after called the Purchase Agreement), a copy of which  
is Exhibit "A" hereto, the Reorganization Committee  
agreed to cause the Foreclosed Properties (except (a)  
property which the Reorganization Committee, with  
the approval of the Applicant, or the Applicant, may  
elect not to take, (b) not exceeding \$200,000.00 to pro-  
vide for such miscellaneous expenses of the Reorgan-  
ization Committee between May 31, 1945, and the De-  
livery Date as shall not otherwise have been provided  
for and (c) at the election of the Reorganization Com-  
104 mittee with the approval of the Virginia Court, if the  
bonds of the Applicant to be issued under the Plan

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shall bear interest from a date later than January 1, 1944, cash or temporary cash investments in an amount which, together with the amount distributed or estimated to be available for distribution on the securities affected by the Plan out of the earnings of the Foreclosed Properties from May 31, 1945, to the Delivery Date shall not exceed, unless the Applicant and the Reorganization Committee shall otherwise agree, \$500,000.00 for each calendar month between January 1, 1944, and the date from which such bonds shall bear interest, such aggregate amount to be distributed pursuant to Section VI of the Plan in lieu of interest on such bonds from January 1, 1944, to the date from which such bonds shall bear interest) to be transferred to the Applicant subject to any necessary approval by this Commission of the acquisition or operation by the Applicant of the Foreclosed Properties. The Reorganization Committee further agreed to pay the \$52,000,500.00 purchase price for the Foreclosed Properties in so far as such purchase price can be paid by the use of securities affected by the Plan which shall have become subject to the Plan and the Applicant agreed to pay the balance of such purchase price as and when such purchase price should be required to be paid by order or orders of the Courts. The Applicant agreed, in substance, to issue its securities as contemplated by the Plan.

The bonds to be issued pursuant to the Plan are to bear interest from a date not earlier than January 1, 1946. In December, 1945, by Order No. R-22, the Virginia Court directed that there should be distributed to holders of outstanding bonds subjected to the Plan a sum not exceeding \$9,334,300.00, said sum to be applied to the payment of interest accrued for the year

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100 1945 or, to the extent that the amount distributed on any particular issue of bonds will exceed the interest accrued thereon for the year 1945, to interest accrued for the year 1944. Said amount will be distributed as among the different issues in accordance with Section VI of the Plan. If less than all of the bonds dealt with under the Plan are subjected thereto, the maximum amount so to be distributed will be correspondingly reduced.

110 Since the earnings for the period from May 31, 1945, to the Delivery Date cannot now be determined, it is not possible to tell how much of said sum will be payable out of said earnings and how much will be payable out of cash to be reserved by the Reorganization Committee pursuant to the Purchase Agreement. However, the financial position of the Applicant will not ultimately be affected by the source from which such payment is made, since the Purchase Agreement contemplates that the Applicant will ultimately receive an amount substantially equivalent to the earnings from May 31, 1945, to the Delivery Date, less such amounts as are distributed to bondholders out of such earnings, 111 either pursuant to said Order No. R-22 or because certain bondholders elect not to participate in the Plan and become entitled to receive their proportionate shares of such earnings as finally determined.

112 In substance, the Applicant will ultimately receive (in addition to the physical properties and other assets hereinabove referred to) an amount equal to the net current assets and net reserves in the hands of the Receivers at the Delivery Date less (a) such part of the sum of \$10,000,000.00 reserved by the Final Decree 113 (or such smaller sum as represents the balance then remaining of said \$10,000,000.00 reserve fund) as may

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be required to be used for the purposes therein specified, (b) the \$9,334,300.00 to be distributed pursuant to Order No. R-22 and (c) any additional participation in earnings subsequent to May 31, 1945, to which any dissenting bondholders may be entitled in excess of such dissenting bondholder's share of said sum of \$9,334,300.00. 110

There is attached as Exhibit G to Supplemental Application No. 1 dated January 15, 1946, to the Securities Application a statement showing (a) the distributive shares under the Decree of bonds not deposited under the Plan at the date of said Supplemental Application, exclusive of any amounts payable out of earnings subsequent to May 31, 1945, and (b) the estimated market value of new securities distributable in respect of such undeposited bonds under the Plan. It will be noted that the market value of such new securities is substantially in excess of the distributive share thereof in the case of each issue of bonds involved. 114

The Foreclosed Properties cannot be transferred to the Applicant prior to the entry of an appropriate order by this Commission under Section 5 of the Interstate Commerce Act and the Applicant respectfully requests that such order be entered forthwith upon the basis of the Amended Application. 116

The Applicant hereby amends the Application as follows:

FIRST: Amend subdivision (B) of the Application at page 2 thereof by adding to the railroads, the sole control of which through ownership of capital stock is requested, Tampa Northern Railroad Company. Sole Control of Tampa Northern Railroad Company is requested by the Applicant by acquisition of all the out- 118



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standing stock of Tampa Northern Railroad Company, to wit, 2,500 shares of Preferred Stock, par value \$100.00 per share, and 5,000 shares of Common Stock, par value \$100.00 per share.

SECOND: Amend subdivision (C) of the Application at page 6 thereof by deleting the Georgia and Alabama Terminal Company lease, the Tampa & Gulf Coast Railroad Company lease and the lease from Central of Georgia Railway Company specified therein. Said leases (other than said lease from Central of Georgia Railway Company) have been, or will be disaffirmed by the Receivers prior to the Delivery Date. Said lease from Central of Georgia Railway Company is dealt with in Section Fifth, below.

THIRD: Amend subdivision (E) of the Application at page 10 thereof to read as follows:

“(E) the properties of the following railroad subsidiaries of the Old Company, such properties to be acquired at such time or times as Applicant may determine, after acquisition at the Delivery Date of control of said subsidiaries:

Brooksville and Inverness Railway.  
Charlotte Harbor & Northern Railway Company  
Georgia & Alabama Terminal Company  
Prince George and Chesterfield Railway  
Tampa & Gulf Coast Railroad Company  
Tampa Northern Railroad Company

(including its ownership of 100 shares of 300 outstanding shares of stock of Tampa Union Station Company);”

The Foreclosed Properties include all the outstanding stock and funded debt of said subsidiaries except

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a small amount of Tampa Northern Railroad Company First Mortgage 5% Bonds which will be paid or acquired prior to the Delivery Date, and except certain bonds of Georgia & Alabama Terminal Company (hereinafter called G&A Terminal) and Tampa & Gulf Coast Railroad Company (hereinafter called Tampa & Gulf Coast); which are hereinafter described. 121

It is contemplated that (1) at the Delivery Date the Applicant will acquire control of said subsidiaries (other than G&A Terminal and Tampa & Gulf Coast) by acquisition of all the outstanding stock and funded debt, if any, of said subsidiaries, (2) after the Delivery Date, the Applicant will operate the properties of such subsidiaries (other than as aforesaid) on the basis of the leases pertaining to such properties specified in subdivision (C) at page 6 of the Application and (3) after the Delivery Date, the Applicant will acquire the properties of said subsidiaries (other than as aforesaid) at such time or times as the Applicant may deem expedient. 122

The acquisition of the properties of said subsidiaries (other than as aforesaid), after acquisition of their control, will involve no cash outlay by the Applicant other than payment of any miscellaneous expenses involved in the dissolution and transfer of the assets of said subsidiaries. 123

The Foreclosed Properties include all outstanding stock of G&A Terminal and Tampa & Gulf Coast, and \$600,000.00 principal amount, of Improvement and Extension Bonds of Tampa & Gulf Coast. G&A Terminal has outstanding \$1,000,000.00, principal amount, of First Mortgage Bonds, of which \$978,000.00 have been deposited under the Plan. Tampa & Gulf Coast has outstanding \$1,184,000.00 principal amount, of 124

120 First Mortgage Bonds, of which \$1,127,000.00 have been deposited under the Plan. It is contemplated that at the Delivery Date the Applicant will acquire all outstanding securities of G&A Terminal and Tampa & Gulf Coast, other than any of such First Mortgage Bonds not then deposited under the Plan. It is contemplated that the Applicant will acquire the properties of said subsidiaries after the Delivery Date, at such time or times as the Applicant may deem expedient. Such acquisition will involve no cash outlay except for miscellaneous expenses and such amount as may be required to acquire any of said First Mortgage Bonds which may not be so deposited. Pending such acquisition, the Applicant proposes to operate the properties of G&A Terminal and Tampa & Gulf Coast, as stated in subdivisions (H) and (I) of the Amended Application.

FOURTH: Amend subdivision (F) of the Application at page 11 thereof to read as follows:

127       “(F) either (1) such control of Georgia, Florida & Alabama Railroad Company (hereinafter called the GF&A) as may result from the acquisition by the Applicant from the Reorganization Committee of not less than \$1,574,000, principal amount; GF&A First Mortgage and Refunding 6% Bonds (hereinafter called the GF&A Bonds) and from the Old Company, as part of the Foreclosed Properties, of 10,000 shares of GF&A Common Stock or (2) such control of GF&A, or any successor corporation to GF&A, as may result from the acquisition of such securities as may be issued by GF&A or such successor in respect of the GF&A Bonds owned by the Applicant under any reorganization of GF&A; and the Applicant

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further requests authority (1) to operate the GF&A properties after the Delivery Date and pending the reorganization of the GF&A, for account of the GF&A, the earnings of the GF&A Properties to be determined on such basis as may be approved by the District Court of the United States for the Middle District of Georgia and accepted by the Applicant."

The Foreclosed Properties include all the outstanding Common Stock of GF&A. The GF&A First Preferred Stock and Second Preferred Stock are outstanding in the hands of the public. By order dated February 8, 1944, of the Virginia Court, the Reorganization Committee was directed to acquire, at \$750.00 flat per \$1,000.00 GF&A Bond, all GF&A Bonds tendered to the Reorganization Committee. Said price represents the amount of cash allocable to each \$1,000.00 GF&A Bond under the Plan. Since that date to and including December 31, 1945, the Reorganization Committee has purchased upon said terms \$1,574,000.00, principal amount, GF&A Bonds. Pursuant to the Purchase Agreement the Reorganization Committee has agreed to deliver to the Applicant on the Delivery Date all GF&A Bonds then held by the Reorganization Committee.

On July 12, 1944, the GF&A filed its petition with the District Court of the United States for the Middle District of Georgia for a reorganization under Section 77 of the Bankruptcy Act and said petition was approved by said Court on the same date. The properties of GF&A are at present operated by the Seaboard Receivers for the account of GF&A.

FIFTH: After subdivision (G) of the Application add the following subdivisions (H), (I), and (J).

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“(H) the right to operate the G&A Terminal properties, from the Delivery Date to the date of acquisition of the properties of G&A Terminal, under a lease, terminable by either party on thirty days notice, providing for the payment of a nominal rental sufficient to cover necessary corporate expenses and taxes.”

As stated above, the Foreclosed Properties include 300,000 shares of Common Stock of G&A Terminal, being all the outstanding stock of G&A Terminal. The only funded debt of G&A Terminal consists of \$1,000,000.00, principal amount, G&A Terminal First Mortgage 5% Bonds, which are dealt with under the Plan. As of December 31, 1945, all but \$22,000.00, principal amount, of the G&A Terminal Bonds had been deposited under the Plan.

The lease of the properties of G&A Terminal (specified at page 6 of the Application) is to be disaffirmed by the Receivers. Authority is requested by the Applicant to operate the properties of G&A Terminal from the Delivery Date to the date of acquisition of such properties by the Applicant on the basis stated above. A copy of the proposed temporary lease from G&A Terminal to the Applicant will be filed with the Commission as soon as it is prepared.

“(I) the right to operate the properties of Tampa & Gulf Coast from the Delivery Date to the date of acquisition of the properties of Tampa and Gulf Coast under a lease, terminable by either party on thirty days notice, providing for the payment of a nominal rental, sufficient to pay necessary corporate expenses and taxes.”



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As stated above, the Foreclosed Properties include 2,500 shares of Tampa & Gulf Coast Stock, being all the outstanding stock of Tampa & Gulf Coast and \$600,000.00 of Improvement and Extension Mortgage Bonds of Tampa and Gulf Coast. The only other outstanding securities of Tampa and Gulf Coast are \$1,184,000.00 of First Mortgage Bonds which are dealt with under the Plan. As of December 31, 1945, all but \$57,000.00 of the Tampa & Gulf Coast First Mortgage Bonds has been deposited under the Plan.

The lease of the Tampa & Gulf Coast properties (specified at page 6 of the Application) has been disaffirmed by the Seaboard Receivers and the Seaboard Receivers are operating the property for the account of Tampa & Gulf Coast. Authority is requested by the Applicant to operate the Tampa & Gulf Coast properties from the Delivery Date to the date of acquisition of such properties on the basis aforesaid. A copy of the proposed temporary lease from Tampa & Gulf Coast to the Applicant will be filed with the Commission as soon as it is prepared.

“(J) The right to operate under lease the property of Central of Georgia Railway Company covered by the lease dated March 28, 1896, described on page 6 of the original application, being a line of railroad from Meldrim, Georgia, to Lyons, Georgia, approximately 57.48 miles, on the terms hereinafter stated.”

The Decree will give the Applicant the right to elect at any time within one year after the Delivery Date whether or not it will assume any lease which constituted part of the Foreclosed Properties. The lease dated March 28, 1896, from Central of Georgia Rail-

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way Company to a predecessor of the old company (hereinafter called the Old Life) is one of the leases which the Applicant will have the right to elect not to assume under the provision above referred to. The Applicant is advised that the Seaboard Receivers propose to discuss with the Trustee of Central of Georgia Railway Company a modification of such lease looking toward a reduction of the rent payable thereunder, which is now approximately \$42,500.00 per annum. A copy of the Old Lease was filed as an exhibit at the hearing on the Application. The Applicant desires authority

(a) to operate the property covered by the Old Lease under the Old Lease (if not revised or modified prior to the Delivery Date) from the Delivery Date until the Old Lease shall be modified, revised or terminated or until the Applicant shall elect not to assume the Old Lease;

(b) if the Old Lease shall be revised or a new lease substituted therefor prior to the Delivery Date, to operate under such revised or new lease, provided that the rent payable thereunder shall not be in excess of the rent payable under the Old Lease; and

(c) if the Old Lease shall not have been revised or a new lease made prior to the Delivery Date, to make a new lease with the Trustee of Central of Georgia Railway Company or his successor at any time within one year after the Delivery Date on terms not more burdensome than the terms of the Old Lease and thereafter, to operate under such lease for the period thereof

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SIXTH: Amend Item I at page 13 of the Application to read as follows:

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"The full and correct name and business address of the Applicant are

Seaboard Air Line Railroad Company,

Norfolk 10, Virginia."

SEVENTH: Amend Items VIII, IX and X at pages 15 and 16 of the Application to read as follows:

"VIII

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"The names and business addresses of the ~~subscrib~~ *Directors* of Applicant are:

Name

Business Address

Leonard D. Adkins

15 Broad Street,  
New York 5, N. Y.

Tristan Antell

40 Wall Street,  
New York 5, N. Y.

Joseph France

1409 Mercantile Trust Building,  
Baltimore & Calvert Streets,  
Baltimore 2, Maryland.

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Otis A. Glazebrook, Jr.

40 Wall Street,  
New York 5, N. Y.

Charles H. Jagow

15 Broad Street,  
New York 5, N. Y.

S. Ralph Warnken

First National Bank Building,  
Light Street,  
Baltimore 2, Maryland.

James B. McDonough, Jr.

15 Broad Street,  
New York 5, N. Y.

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## "IX

149 "The names, titles and business addresses of Applicant's officers are:

<i>Name</i>	<i>Office</i>	<i>Business Address</i>
Otis A. Glazebrook, Jr.	President	40 Wall Street, New York 5, N. Y.
Joseph France	Vice-President	1409 Mercantile Trust Bldg. Baltimore & Calvert Streets, Baltimore 2, Maryland.
S. Ralph Warnken	Vice-President	First National Bank Bldg. Light Street, Baltimore 2, Maryland.
150 Tristan Antell	Secretary and Treasurer	40 Wall Street, New York 5, N. Y.
Charles H. Jagow	Assistant Secretary	15 Broad Street, New York, N. Y.
James B. McDonough, Jr.	Assistant Treasurer	15 Broad Street, New York 5, N. Y.

## "X

151 "The names and business addresses of the subscribers to the Applicant's stock are:

<i>Name</i>	<i>No. of Shares Subscribed</i>	<i>Business Address</i>
Joseph France	1	1409 Mercantile Trust Bldg. Baltimore & Calvert Streets, Baltimore 2, Maryland.
Otis A. Glazebrook, Jr.	1	40 Wall Street, New York 5, N. Y.
S. Ralph Warnken	1	First National Bank Bldg. Light Street, Baltimore 2, Maryland."

152 EIGHTH: Amend Item X of the Application at pages 19 and 20 thereof to read as follows:

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"The proposed transaction is to be effected pursuant to the terms and conditions of the Plan. 153

"It is contemplated that when the Foreclosed Properties are acquired by the Applicant on the Delivery Date they will be subject only to the liens of any taxes and assessments levied and assessed against the Foreclosed Properties, the liens of certain equipment trust obligations hereinafter described, and any lien which may be imposed by the Court to secure the payment of any part of the purchase price under the Final Decree which is payable to dissenters. All securities (other than said equipment trust obligations) secured by lien on the Foreclosed Property and subject to which the Foreclosed Property was sold under the Decree will be acquired by the Applicant or cancelled on or before the Delivery Date. 154

"It is contemplated that the Applicant will acquire on the Delivery Date the Foreclosed Properties, subject only to the liens referred to in the next preceding paragraph, and the Seaboard-All Florida Properties and the bonds of GF&A, G&A Terminal and Tampa & Gulf Coast hereinabove described, all in consideration of (1) the issue of its securities as contemplated by the Plan (for authority for which the Applicant has applied in the Securities Application, to which reference is hereby made), (2) the assumption, as required by the Decree, of all debts, obligations and liabilities of the Receivers contracted, incurred or assumed by or chargeable against the Receivers up to May 31, 1945, to the extent not paid prior to the Delivery Date, or paid out of said reserve fund of \$10,000,000, and (3) the obligation and liability of the Re- 155



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157      ceivers, as guarantors, of the Equipment Trust  
Certificates referred to in Item XXVII of the  
Amended Application.

158      "If less than all of the securities dealt with un-  
der the Plan are deposited thereunder, the Appli-  
cant may be required to make certain cash pay-  
ments in respect thereof, but in that event either  
(a) such cash will be provided by sale of a part of  
the securities otherwise issuable in respect there-  
of under the Plan (assuming that market values  
continue at or near present levels) or (b) the  
amounts of securities to be issued by the Appli-  
cant will be correspondingly reduced."

NINTH: Amend Item XXII of the Application at  
pages 20 and 30, inclusive, by eliminating from the  
"Lines to be Purchased" (p. 27) the lines of Georgia,  
Florida & Alabama Railroad Company (132.52), and  
adding said lines to the "Lines to be Leased," and by  
inserting on page 27, at the end of Subdivision A, the  
following:

159      "The lines of railroad shown above as owned by  
corporations other than Seaboard Air Line Rail-  
way Company, Seaboard-All Florida Railway,  
Florida Western & Northern Railroad Company  
and East and West Coast Railway are to be leased  
by Applicant pending the acquisition thereof.

TENTH: Amend Item XXVII of the Application,  
pages 32 to 34, inclusive, to read as follows:

160      "The outstanding Equipment Trust Certificates  
subject to which the Foreclosed Property will be  
acquired by the Applicant, and which are to be  
assumed by the Applicant, are as set out in para-

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graph 3 of the prayers of Applicant's Supplemental Application No. 1, in Finance Docket No. 14, 500 (the Securities Application), to which reference is hereby made."

**ELEVENTH:** Applicant proposes to qualify to do business as a foreign corporation in North Carolina, Georgia, Alabama and Florida. The Constitution of South Carolina prohibits acquisition or operation by a foreign corporation of lines of railroad in South Carolina. It is not in the public interest that Applicant should be required to become a corporation of South Carolina, as well as of Virginia, and the requirement referred to is a substantial burden on interstate commerce. Applicant is advised that it will have power to acquire and operate the property in South Carolina described in the Amended Application, irrespective of said provision of the Constitution of South Carolina, if such acquisition and operation shall be authorized by the Interstate Commerce Commission.

The laws of Georgia purport to limit the amount of real property in Georgia which may be owned by a foreign corporation. Such limitation, if applicable to property used for railroad operation in interstate commerce, constitutes a burden on interstate commerce. Applicant is advised that it will have power to own such real estate in Georgia as may be useful in connection with the operation of the lines of railroad in Georgia described in the Amended Application, if the acquisition and operation of such lines of railroad is authorized by the Commission.

**TWELFTH:** In addition to the exhibits filed with, and introduced at the hearings on, the Application and the Seaboard-All Florida Application, the following exhibits are filed herewith:

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Exhibit A. A copy of the Purchase Agreement.

165 Exhibit B. Opinion of Leonard D. Adkins, Esq.,  
counsel for the Applicant.

The resolution of the Board of Directors of Applicant, filed as Exhibit 1 to the Application, authorized the filing of this Supplemental Application and Amendment.

WHEREFORE, the Applicant respectfully requests that the Commission forthwith authorize the acquisition of properties, control, leasehold interests, trackage rights and rights of joint use as requested in the Application,  
166 as amended and supplemented, including, specifically, the acquisition and operation of lines of railroad in the State of South Carolina without becoming a domestic corporation of said state.

Dated January 23, 1946.

Respectfully submitted,

SEABOARD AIR LINE RAILROAD COMPANY,

By OTIS A. GLAZEBROOK, JR.

President

167 LEONARD D. ADKINS,

Counsel.

STATE OF NEW YORK, }

COUNTY OF NEW YORK, }

ss.:

OTIS A. GLAZEBROOK, JR., being duly sworn, deposes and says that he is the President of Seaboard Air Line Railroad Company; that he is the executive officer authorized by appropriate corporate action to sign,  
168 verify and file the above and foregoing application; that he is familiar with the subject matter thereof and that the statements made and the facts recited therein

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are true to the best of his knowledge, information and belief,

OTIS A. GLAZEBROOK, JR.

Subscribed and sworn to before me  
this 26th day of January, 1946.

FREDERICK WEBER

Notary Public  
[Notarial Seal]

FREDERICK WEBER.

Bronx Co. Clk's No. 26, Reg. No. 88-W-7; New York  
Co. Clk's No. 479, Reg. No. 229-W-7.

Term Expires March 30, 1947.

## EXHIBIT A

AGREEMENT dated May 25, 1945, between  
OTIS A. GLAZEBROOK, JR., JOSEPH FRANCE and S.  
RALPH WARREN, as the Reorganization Commit-  
tee under the Plan of Reorganization of Seaboard  
Air Line Railway (hereinafter called the Plan)  
and SEABOARD RAILWAY COMPANY, a corporation  
organized and existing under the laws of Virginia  
(hereinafter called the New Company).

By orders dated December 10, 1943, and December  
14, 1943, respectively, the District Court of the United  
States for the Eastern District of Virginia (herein-  
after called the Virginia Court) and the District Court  
of the United States for the Southern District of Flor-  
ida (hereinafter called the Florida Court) approved  
a Plan for the reorganization of Seaboard Air Line  
Railway Company, and, by orders dated, respectively,  
September 8, 1944, and September 9, 1944, the Virginia

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**Seaboard Air Line R. R. Co. v. Daniel et al.**

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173 Court and the Florida Court approved certain modifications of said Plan. The parties hereto are familiar with said Plan, which (as so modified) is hereinafter called the Plan. The Virginia Court and the Florida Court are hereinafter sometimes together called the Courts.

174 By said orders first hereinabove mentioned the Courts appointed Otis A. Glazebrook, Jr., Joseph France and Charles Markell as the Reorganization Committee to carry out the Plan. Said Charles Markell subsequently resigned as a member of the Reorganization Committee and S. Ralph Warnken was appointed by the Courts as his successor.

175 The Reorganization Committee duly called for deposits under the Plan of securities affected by the Plan. The Reorganization Committee also entered into agreements with certain committees representing certain issues of securities affected by the Plan whereby the securities deposited with such committees, unless withdrawn from deposit within a specified period, became subject to the Plan. There is annexed hereto as Schedule A a statement showing the principal amount of the outstanding securities of each issue entitled to receive new securities under the Plan and the principal amount of the securities of each such issue which have become subject to the Plan as of the close of business on May 19, 1945.

176 Of the issues specified in said Schedule A, the bonds of Carolina Central Railroad Company, the bonds of Florida Central & Peninsular Railroad Company and the notes of Seaboard Air Line Railway Company are hereinafter collectively sometimes called the Unforeclosed Bonds, the bonds of Georgia & Alabama Terminal Company and the bonds of Tampa & Gulf Coast



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Railroad Company are hereinafter collectively sometimes called the Leased Line Bonds and the bonds of the remaining issues listed in Schedule A are hereinafter collectively sometimes called the Foreclosed Bonds. All securities now or hereafter subject to the Plan are hereinafter collectively sometimes called Deposited Bonds. 177

In addition to the bonds listed in Schedule A, the Reorganization Committee has acquired pursuant to the Plan \$1,559,000, principal amount, of First Refunding Mortgage 6% Bonds of Georgia, Florida & Alabama Railroad or certificates of deposit therefor. Said bonds of Georgia, Florida & Alabama Railroad, including certificates of deposit therefor, are hereinafter sometimes called the G.F.&A. Bonds. 178

Pursuant to an agreement dated August 29, 1944, between the Receivers, the Reorganization Committee and the New Company (hereinafter called the All-Florida Agreement) the sale to the New Company of the properties referred to in the All-Florida Agreement (hereinafter called the All-Florida Properties) has been duly confirmed and the New Company has been authorized by the Interstate Commerce Commission to acquire the All-Florida Properties. Appeals are pending from the Decree pursuant to which the All-Florida Properties were sold and from the order confirming the sale thereof to the New Company. 179

The All-Florida Agreement provides, among other things, that if the New Company shall acquire the All-Florida Properties it will, upon the consummation of the Plan, subject to the approval of the Interstate Commerce Commission, issue in consideration of the conveyance to it of the All-Florida Properties such of the new securities contemplated by the Plan as may 180

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181 -be agreed upon between the New Company and the Reorganization Committee, but that if the New Company shall acquire all or a major part of the properties which the Plan contemplates shall be acquired by it, it shall not be necessary to make any allocation of such new securities as between the All-Florida Properties and the other property acquired by the New Company.

182 On April 25, 1945, and April 21, 1945, respectively, there was filed in the Virginia Court and in the Florida Court a final decree of foreclosure and sale dated April 12, 1945 (hereinafter called the Decree). The parties are familiar with the provisions of the Decree. The Decree provides for foreclosure of the mortgages securing the Foreclosed Bonds and for the sale of the property subject thereto, all as therein provided.

In consideration of the premises, and of the mutual covenants and agreements herein contained, and in pursuance of, and in order to carry out, the Plan, the parties hereto agree as follows:

183 FIRST: The Reorganization Committee will bid for the Units to be offered for sale pursuant to the Decree the respective upset prices therefor specified in the Decree and such additional amount, if any, as the Reorganization Committee and the New Company may agree on. If the Reorganization Committee shall be the successful bidder for the major part or all of the property offered for sale it will use its best efforts to have said sale confirmed. If the Reorganization Committee shall not be the successful bidder at said sale for the major part of the property offered for sale, or 184 if any sale to the Reorganization Committee shall not be confirmed, this Agreement shall terminate without liability on the part of either party to the other. If the

## In the Original Jurisdiction

Reorganization Committee shall be the successful bidder for the major part, but not for all, of the property offered for sale, this Agreement shall be appropriately modified. 186

The Reorganization Committee will bid for any property of Seaboard Air Line Railway Company (hereinafter called Seaboard) or its Receivers (hereinafter called the Receivers) which may be offered for sale at any sale pursuant to any supplemental or other decree which may hereafter be entered providing for the sale of such property. The amount to be bid by the Reorganization Committee at any such subsequent sale shall be fixed by agreement between the parties hereto. 187

SECOND: The New Company will use its best efforts to secure the approval of the Interstate Commerce Commission of the acquisition by it of the property to be acquired by it in accordance with this Agreement, of the operation by it of such of said property as consists of lines of railroads and appurtenances thereof and of the issue by it of securities as hereinafter provided. 188

THIRD: The New Company will promptly amend its charter so as to authorize the issue of stock by the New Company in accordance with the provisions of the Plan, and will use its best efforts to become qualified, so far as required by law, to own property and carry on its business in all of the states where the property to be acquired by the New Company pursuant to this Agreement is located. 189

The New Company will promptly take appropriate proceedings to change its name to "Seaboard Air Line Railway Company" or such other name as may be agreed upon by the parties hereto. 190

## Seaboard Air Line R. R. Co. v. Daniel et al.

FOURTH: The Reorganization Committee will cause all property for which it may be the successful bidder at any sale (except property which the Reorganization Committee, with the approval of the New Company, or the New Company, may elect not to take, as provided in the Decree, and except cash or temporary cash investments to the extent permitted by Article EIGHTH below), upon confirmation of the sale thereof, to be transferred to the New Company, in accordance with the provisions of the Decree.

Subject to the provisions of Article EIGHTH below; the Reorganization Committee, as part of the consideration for the securities to be issued by the New Company pursuant to Article SEVENTH hereof, will (a) pay over to the New Company any amount which may be paid to the Reorganization Committee in cash in respect of any Deposited Bonds, either out of assets not sold pursuant to the Decree or out of the proceeds of sale of such assets if sold to someone other than the Reorganization Committee, except to the extent that any such amount may be distributed by the Reorganization Committee among the owners of the Deposited Bonds, and/or (b) transfer to the New Company, on its written requests, all or any of the Deposited Bonds, stamped, to show any amounts credited thereon in accordance with any provision hereof.

FIFTH: The Reorganization Committee will pay the purchase price of all property for which it may be the successful bidder in so far as such purchase price can be paid by the use of Deposited Bonds. The New Company will pay the balance of such purchase price as and when such purchase price is required to be paid under the provisions of the Decree or of any subsequent order or orders of the Courts, or either of them,

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In the Original Jurisdiction

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and will assume all obligations and liabilities which under the provisions of the Decree or of any such subsequent order or orders are required to be assumed by the purchaser of such property and all other liabilities imposed on the purchaser of such property by the Decree or by any such subsequent order or orders.

The New Company will indemnify the Reorganization Committee and each of the members thereof from and against any and all liability in respect of such purchase price (except as hereinabove provided) and in respect of all such obligations and liabilities.

SIXTH: The Reorganization Committee will cause all Unforeclosed Bonds which are Deposited Bonds at the date of transfer to the New Company of the property offered for sale pursuant to the Decree (which date is hereinafter called the Delivery Date) to be surrendered for cancellation to the trustees under the respective mortgages or other indentures securing the Unforeclosed Bonds, or will make such other disposition thereof, if any, as the New Company may request: *provided, however*, that Notes of Seaboard included among the Deposited Bonds shall not be so delivered unless the trustee under the indenture securing such Notes shall deliver to the Reorganization Committee, in exchange for such Notes, pledged Consolidated Mortgage Bonds of Seaboard. If such delivery is made, the Consolidated Mortgage Bonds so delivered shall be deemed to be Deposited Bonds for all purposes of this Agreement. If such Consolidated Mortgage Bonds shall not be so delivered to the Reorganization Committee, the Reorganization Committee will deliver to the New Company on the Delivery Date all such Notes of Seaboard then included among the Deposited Bonds.



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197 The Reorganization Committee will also deliver to the New Company on the Delivery Date all Leased Line Bonds and all G.F.&A. Bonds then held by the Reorganization Committee or any proceeds of any thereof or substitutes for any thereof then in the hands of the Reorganization Committee.

SEVENTH: The New Company, subject to the approval of the Interstate Commerce Commission, will

198 (a) issue to the Reorganization Committee, or as it may direct, on the Delivery Date, the new securities issuable under the Plan in respect of all Deposited Bonds, as of that date, and will thereafter from time to time so issue the new securities issuable under the Plan in respect of any additional securities which may become Deposited Bonds thereafter, up to the date when the Reorganization Committee, with the approval of the Courts, shall cease to receive deposits under the Plan;

199 (b) pay to or on the order of the Reorganization Committee, from time to time, the amount of cash necessary under the Plan to make the payments required by the Plan to holders of Deposited Bonds entitled to receive cash under the Plan; and

200 (c) purchase, at \$750 per \$1,000 Bond, any G. F.&A. Bonds which may not be purchased by the Reorganization Committee before the Delivery Date, if the Reorganization Committee shall so request.

201 The new securities and the mortgages pursuant to which the new bonds are to be issued shall be in accordance with the Plan and shall otherwise be in form satisfactory to the Reorganization Committee. Said mortgages and the bonds to be issued thereunder shall

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be dated such date (not earlier than January 1, 1944) as the Reorganization Committee may request. 201

The securities to be issued by the New Company pursuant to this Article SEVENTH shall be deemed to include the new securities to be issued by the New Company pursuant to the All-Florida Agreement.

EIGHTH: The Reorganization Committee may cause to be transferred to the Reorganization Committee, from time to time, out of the cash included in the property sold pursuant to the Decree, not exceeding \$200,000 to provide for miscellaneous expenses of the Reorganization Committee between the date of sale pursuant to the Decree and the Delivery Date, which shall not otherwise have been provided for. Any portion of any amount so transferred to the Reorganization Committee which shall not be needed for the purpose aforesaid shall be paid over to the New Company promptly after the Delivery Date. 202

If the new bonds bear interest from a date later than January 1, 1944, the Reorganization Committee (a) may, with the approval of the Virginia Court, distribute, pursuant to Section VI of the Plan, all or any part of any cash which may be paid to the Reorganization Committee, in respect of Deposited Bonds, out of assets not sold pursuant to the Decree, or out of the proceeds of sale of any such assets, if sold to others than the Reorganization Committee, and (b) may, with the approval of the Virginia Court, cause to be transferred to the Reorganization Committee, for like distribution, cash and/or obligations of the United States, out of the assets sold pursuant to the Decree; *provided, however*, that unless the parties hereto shall otherwise agree, the amount retained pursuant to the foregoing subdivision (b) shall not exceed the amount 203 204

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Seaboard Air Line R. R. Co. v. Daniel et al.

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206 necessary, when added to the amount distributed, or estimated to be available for distribution pursuant to the foregoing subdivision (a) to equal \$500,000 for each calendar month or portion thereof which shall have elapsed between January 1, 1944, and the date from which the bonds to be issued by the New Company pursuant to the Plan shall bear interest.

207 If, at the Delivery Date (a) the amount which might be distributed in respect of Deposited Bonds out of assets not sold pursuant to the Decree cannot be definitely determined or (b) such assets are not in form 208 available for immediate distribution, and if the bonds to be issued by the New Company bear interest from a date later than January 1, 1944, the New Company will, at the request of the Reorganization Committee, subject to the approval of the Virginia Court, advance to the Reorganization Committee, for distribution on the Deposited Bonds, such amount as the Reorganization Committee may request, not exceeding the amount then estimated by the Reorganization Committee to be distributable in respect of Deposited Bonds out of assets not sold pursuant to the Decree. 209 Such advance shall not bear interest, and the Reorganization Committee shall be obligated to repay such advance only as and when, and to the extent that, the Reorganization Committee shall receive a distribution out of such assets in respect of Deposited Bonds.

210 NINTH: Unless the Virginia Court shall otherwise direct, the New Company will set aside in a reserve fund the same amount in cash and/or obligations of the United States as, at the Delivery Date, shall be in the reserve fund created pursuant to Orders Nos. 362 and 394 of the Virginia Court. Such reserve fund shall be set aside for such purposes, if any, as may be

## In the Original Jurisdiction

specified in any order of the Virginia Court entered prior to the Delivery Date or, in the absence of such specification, for such purposes as may from time to time be determined by the Board of Directors of the New Company.

TENTH: The New Company will pay or reimburse the Reorganization Committee for all taxes, Federal or state, for which either the New Company or the Reorganization Committee may be liable in respect of any transaction contemplated by this Agreement, and all other expenses in connection with carrying out the Plan and this Agreement, and will hold the Reorganization Committee harmless for any liability in connection with any such taxes or expenses; *provided, however* (1) that the New Company shall not be required to reimburse the Reorganization Committee for any expenses which shall have been provided for out of moneys paid to the Reorganization Committee by the Receivers or transferred to the Reorganization Committee pursuant to Article EIGHTH hereof and (2) except that as otherwise provided in the Decree (with respect to obligations of the purchaser under the Decree) the New Company shall not be liable for the compensation of the members of the Reorganization Committee or for the compensation of its counsel, it being understood that such compensation, in amounts to be approved by the Courts, will be paid out of the funds reserved for payment of expenses under the Decree.

ELEVENTH: All obligations of the New Company hereunder are subject to approval by the Interstate Commerce Commission of the performance of such obligations to the extent that such approval is required by law. In the event that the New Company shall be unable to obtain such approval this Agreement shall

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terminate without liability of either party to the other hereunder.

213 Either party hereto, before carrying out any of its agreements herein contained, may petition the Virginia Court and/or the Florida Court for approval of the carrying out of such agreement and, in the event of any such petition, will use its best efforts to secure favorable action on such petition. In the event, however, that either the Virginia Court or the Florida Court shall refuse to grant any such petition or shall enter any order inconsistent with the performance by either party hereto of any of its agreements hereunder, 214 this Agreement, so far as then unexecuted, shall terminate without liability of either party to the other hereunder.

TWELFTH: The Reorganization Committee is executing this Agreement solely in its capacity as Reorganization Committee under the Plan and no member of the Reorganization Committee shall incur any personal liability under this Agreement or in respect of any matter dealt with hereunder or any action taken pursuant hereto.

215 IN WITNESS WHEREOF, the parties have executed this Agreement as of May 25, 1945.

OTIS A. GLAZEBROOK, JR. (L.S.)

JOSEPH FRANCE (L.S.)

S. RALPH WARNKEN (L.S.)

As the Reorganization Committee for  
Seaboard Air Line Railway Company  
SEABOARD RAILWAY COMPANY

[Corporate  
Seal]

By OTIS A. GLAZEBROOK, JR.  
President

Attest:

216 TRISTAN ANTELL  
Secretary



## In the Original Jurisdiction

## SCHEDULE A

SECURITIES SUBJECT TO PLAN AS OF CLOSE OF BUSINESS 217  
MAY 19, 1945

*I Unforeclosed Bonds*

Title of Issue	Principal Amount	Principal Amount	Percentage Subject
	Outstanding	Subject to Plan	to Plan
Carolina Central Bonds..\$	3,000,000	\$ 2,646,000	88%
F. C. & P. Bonds.....	4,372,000	4,063,000	93%
Seaboard Notes.....	7,500,000*	6,722,000*	89%

*II Foreclosed Bonds*

Florida West Shore Bonds	755,000	697,000	92%
Georgia & Alabama Bonds	6,085,000	5,212,000	85%
G. C. & N. Bonds.....	5,360,000	4,989,000	93%
Atlanta-Birmingham B'ds	5,910,000	5,416,000	91%
Seaboard & Roanoke B'ds	2,500,000	2,447,000	97%
South Bound Bonds.....	2,033,000	1,750,000	86%
Seaboard First 4s.....	12,768,000	10,737,000	84%
Seaboard Refundings.....	19,350,000	15,750,000	81%
Seaboard Consolidateds..	78,974,000†	67,164,500†	85%

*III Leased Line Bonds*

G. & A. Terminal.....	1,000,000	952,000	95%
Tampa & Gulf Coast.....	1,184,000	199,000	16%
Total .....	\$150,791,000	\$128,744,500	85%

## EXHIBIT B

January 23, 1946

Dear Sirs:

I am counsel for Seaboard Air Line Railroad Company (hereinafter called the Applicant) and have supervised the organization of the Applicant and the proceedings taken by the Applicant to authorize the

\* Disregarding partial payments made on account of principal. 220

† Includes bonds pledged with U. S. Treasury, but excludes bonds pledged to secure Seaboard Notes.

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acquisition by the Applicant of the lines of railroad, securities, leasehold interests, trackage rights and rights of joint use to be acquired by the Applicant, as stated in its Application, as amended and supplemented, under Section 5 of the Interstate Commerce Act, in Finance Docket No. 14,501.

I am of opinion that:

(1) the Applicant is a duly organized and existing corporation under the laws of the Commonwealth of Virginia and has the power to acquire such properties; and

(2) the acquisition by the Applicant of such lines of railroad, securities, leasehold interests, trackage rights and rights of joint use will be legally authorized and valid if approved by the Interstate Commerce Commission.

Very truly yours,

LEONARD D. ADKINS.

Interstate Commerce Commission,

Washington 25, D. C.

**SUPREME COURT****57****In the Original Jurisdiction****INTERSTATE COMMERCE COMMISSION****EXHIBIT "B"****WASHINGTON***June 28, 1946.***FINANCE DOCKET NO. 14500****Seaboard Air Line Railway Company Receivership****FINANCE DOCKET NO. 14501****FINANCE DOCKET NO. 14501 (Sub-No.1)****Seaboard Air Line Railroad Company Acquisition,  
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## INTERSTATE COMMERCE COMMISSION FINANCE DOCKET NO. 14500<sup>1</sup>

Seaboard Air Line Railway Company Receivership

*Submitted June 6, 1946*

*Decided June 28, 1946*

1. Purchase by the Seaboard Air Line Railroad Com-  
pany of the railroad properties and other assets  
of the Seaboard Air Line Railway Company or its  
receivers, or both, and operation of such railroads,  
including those operated under contract, lease, or  
**agreement, and acquisition of control, or joint**  
control, by the Seaboard Air Line Railroad Com-  
pany through ownership of capital stock of cer-  
tain other railroad companies, and joint control  
of the Baltimore Steam Packet Company, ap-  
proved and authorized. Condition prescribed.

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2. Acquisition by the Seaboard Air Line Railroad  
Company of an interest in the Baltimore Steam

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<sup>1</sup> This report also embraces Finance Docket No. 14501 and  
Finance Docket No. 14501 (Sub No. 1) Seaboard Air Line Rail-  
road Company Acquisition, etc.



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237 Packet Company approved and authorized under the Panama Canal Act. See 244 I.C.C. 583.

3. Acquisition of control of the above properties by Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Husbands, and Legh R. Powell, Jr., voting trustees, approved and authorized. Condition prescribed.

238 4. The requirements of the constitution and statutes of the State of South Carolina in respect to railroads operating within that State found to be a burden on interstate commerce insofar as it requires separate incorporation within that State.

239 5. Authority granted to the Seaboard Air Line Railroad Company, pursuant to a plan of reorganization, to issue not exceeding \$32,500,000 of first-mortgage 50-year 4-percent bonds, series A, \$52,500,000 of income-mortgage 70-year 4½-percent bonds, series A, \$15,000,000 of preferred stock 5-percent, series A, of the par value of \$100 a share, and 849,997 shares of common stock without par value, but with a stated value of \$100 a share, and such additional shares of common stock not exceeding 675,000 shares as may be necessary to comply with the conversion rights of the income-mortgage 70-year 4½-percent bonds, series A, and the preferred stock, series A, that may be issued under the plan.

240 6. Authority granted to the Seaboard Air Line Railroad Company, pursuant to a plan of reorganization, to assume obligations and liabilities under the terms and conditions and to the extent contemplated by the plan

(a) of Legh R. Powell, Jr., and Henry W. Anderson, as receivers of the Seaboard Air Line Railway

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Company, as guarantors, in respect of not exceeding \$13,588,000 of receivers' equipment-trust certificates; 241

- (b) of the Seaboard Air Line Railway Company, or its receivers, or both, as guarantors or lessees, or both, in respect of the following securities: \$323,333.33 of first-mortgage 4-percent bonds of the Birmingham Terminal Company, \$100,000 of first and general mortgage 5-percent bonds, \$2,400,000 of refunding and extension mortgage 5-percent bonds, series A, \$1,100,000 of refunding and extension mortgage 6-percent bonds, series B, and \$400,000 of refunding and extension mortgage 4½-percent bonds, series C, all of the Jacksonville Terminal Company, \$280,000 of 1½-percent serial promissory notes of the Norfolk & Portsmouth Belt Line Railroad Company, and \$200,000 of first-mortgage 4-percent bonds of the Tampa Union Station Company; and 242
- (c) of the Seaboard Air Line Railway Company, or the receivers, or both, as lessee by lease or operating agreement, in respect of the following securities insofar as rental payments are involved: Athens Terminal Company first-mortgage 5-percent bonds, \$200,000; Birmingham Terminal Company, 1500 shares of capital stock of the par value of \$100 each; Durham Union Station Company, 333 shares of capital stock of the par value of \$100 each, and \$60,000 of first-mortgage 5-percent bonds; North Charleston Terminal Company, 1050 shares of the capital stock of the par value of \$100 each; Savannah Union Station Company, \$600,000 of first mort- 243

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gage 4-percent bonds; Tampa Union Station Company, 300 shares of capital stock of the par value of \$100 each; Atlanta Terminal Company, \$1,600,000 of first-mortgage 4-percent bonds; and 1,500 shares of capital stock of the par value of \$100 each.

Previous reports 257 I.C.C. 584, 683; 261 I.C.C.

*Leonard D. Adkins* for Seaboard Air Line Railroad Company and interveners.

## SECOND SUPPLEMENTAL REPORT OF THE COMMISSION

DIVISION 4, COMMISSIONERS PORTER,  
MAHAFFIE, AND MILLER

### BY DIVISION 4:

The Seaboard Air Line Railroad Company, hereinafter called the new company, under its former name of Seaboard Railway Company applied on March 9, 1944, as amended and supplemented April 13, 1944, September 6, 1944, January 31, 1946, and April 5, 1946, for authority under section 5(2) of the Interstate Commerce Act, as amended, to acquire certain properties and interest in properties of the Seaboard Air Line Railway Company, hereinafter called the old company, or its receivers or both, and for authority under section 5(2)(a), 5(15) and 5(16) of the act to acquire from the old company or the receivers or both, certain stock interests and indebtedness of the Baltimore Steam Packet Company, a common carrier by water, Finance Docket No. 14501. Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Husbands, and Leigh R. Powell, Jr., as voting trustees un-

## In the Original Jurisdiction

der a voting trust agreement, interveners, at the hearing applied on April 15, 1946, for authority under section 5(2) of the act to acquire control, to the extent such control is acquired under the provisions of the voting-trust agreement of the new company and of the other railroad corporations forming parts of the proposed Seaboard Air Line Railroad system, Finance Docket No. 14501 (Sub. No. 1). 149

Our report of August 12, 1944, in this proceeding, 257 I. C. C. 683, shows the details of all securities to be issued and obligations and liabilities to be assumed under the plan of reorganization. The new company proposes to assume these obligations, except that since such date the outstanding principal amount of Norfolk & Portsmouth Belt Line Railroad Company promissory notes has been reduced to \$280,000, the outstanding principal amount of Tampa Union Station Company first-mortgage bonds has been reduced to \$200,000, and the amount of Savannah Union Station Company first-mortgage bonds held in the sinking fund has increased to \$304,000, Finance Docket No. 14500. 250

Hearings were held and briefs were filed by the new company and the interveners. No representations have been made by state authorities and no formal objection to the applications has been offered. 251

In furtherance of the disposition of these applications, we have issued several reports and orders on parts thereof, viz,—our order of April 14, 1944, in *Seaboard Air Line Ry. Co. Receivership*, 257 I.C.C. 837, authorized Otis A. Glazebrook, Jr., Joseph France, and Charles Markell, as members of the reorganization committee of the old company, to solicit the deposit of, or assent with respect to certain claims against the Seaboard Air Line Railway Company and 252

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253 affiliated companies, and any instruments evidencing the same under a deposit agreement, and to act for claimants pursuant to such agreement, subject to the conclusions specified therein. On September 30, 1944, in *Seaboard Ry. Co. Acquisition*, 257 I.C.C. 584, the purchase by the Seaboard Railway Company of the properties of the Seaboard-All Florida Lines was approved and authorized. On August 12, 1944, in *Seaboard Air Line Ry. Co. Receivership*, 257 I.C.C. 683, we tentatively approved the capitalization of the reorganized company as set forth in the plan of reorganization, suggesting changes in the terms of the bonds and requiring mandatory provisions in respect of sinking-fund and capital-fund payments. No order was issued because of the preliminary character of the application. On February 21, 1946, in *Seaboard Air Line Ry. Co. Receivership*, 261 I.C.C. —, authority was granted to the newly organized company to issue 3 shares of common capital stock without par value, to be sold at \$100 a share to the reorganization committee to enable the new company to take the corporate action necessary to authorize the issue of the securities and to assume the obligations involved in the plan of reorganization, thus reducing to 849,997 the number of shares of common stock to be thereafter authorized to be issued.

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In our report of August 12, 1944, *supra*, we discussed at some length the incorporation of the old company, the appointment of receivers and other matters. Since the issue of the report of August 12, 1944, *supra*, the reorganization committee has purchased at foreclosure sale for \$52,000,500 the properties of the Seaboard Air Line Railway Company, which are to be transferred to the new company. The sale was held on

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May 31, 1945, the reorganization committee being the only bidder, and on June 29, 1945, the sale was confirmed and made absolute. The price bid was \$500.00 in excess of the upset price. The new company has also purchased at foreclosure sale the properties of the Seaboard-All Florida Railway, Florida Western & Northern Railway Company, and East and West Coast Railway pursuant to authority granted by our order of September 30, 1944, *supra*, and these will be transferred to the new company upon the consummation of the plan. This sale was confirmed on October 2, 1945, by the District Court of the United States for the Southern District of Florida. All appeals from the orders authorizing and confirming the sale of the properties to the new company have been finally disposed of.

By the terms of the decrees the foreclosed properties comprise (1) all properties of every kind, character, and description of the old company on hand at May 31, 1945, other than the right of the old company to exist as a corporation and a reserve of cash or temporary cash investments in the amount of \$10,000,000 plus an amount equal to the current liabilities of Leigh R. Powell, Jr., and Henry W. Anderson as receivers of the old company as of May 31, 1945, for the payment of such costs, expenses, allowances, compensation and disbursements as the courts shall hereafter find to be properly chargeable against the receivership estate, the liabilities of the receivers for Federal income and excess profit taxes up to May 31, 1945, and all expenses made and liabilities incurred by the receivers in the discharge of their duties up to May 31, 1945, (2) all right, title and interest of the receivers and the old company in all improvements made by the

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261 receivers between May 31, 1945, and the date of delivery to the new company of deeds to the foreclosed properties and to the leased lines now operated by the receivers, and (3) all additional real property, railroad equipment or other assets, other than current assets, acquired by the receivers between May 31, 1945, and the date of delivery to the new company, for use in connection with the operation of such properties.

262 Pursuant to the terms of an agreement dated May 25, 1945, between Otis A. Glazebrook, Jr., Joseph France and S. Ralph Warnken, as reorganization committee, and the Seaboard Railway Company (now Seaboard Air Line Railroad Company), the committee will pay the purchase price of all the property acquired by it insofar as possible by the use of deposited bonds and transfer the property to the new company. The new company will pay the balance of the purchase price as and when required pursuant to the order of the courts, and will assume all other liabilities imposed upon the purchaser of the property. As consideration for the transfer of the property the new company (1) will issue the various securities as hereinafter set forth to the reorganization committee for distribution pursuant to the terms of the plan in respect to all deposited bonds, (2) will pay to or on the order of the reorganization committee from time to time the amount of cash necessary to make the payments to holders of deposited bonds entitled to receive cash under the plan, and (3) will purchase at \$750 per \$1,000 bond any Gulf, Florida & Alabama bonds which may not be purchased by the reorganization committee before the delivery date if so requested by the committee. 264

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A statement shown as appendix B sets forth the principal amount of outstanding securities of each issue entitled to receive new securities under the plan, and the principal amount of the securities of each such issue which became subject to the plan as of the close of business May 19, 1945. In addition to the bonds shown therein, the reorganization committee has acquired pursuant to the plan \$1,559,000 of first refunding mortgage 6-percent bonds of Georgia, Florida & Alabama Railroad, or certificates of deposit therefor.

The new company was incorporated for the purpose of acquiring, directly or indirectly, substantially all of the system of railroads of the old company. Under the plan it is proposed to include in a unified railroad system (a) all the properties heretofore owned outright by the old company, (b) all the wholly owned subsidiaries operated by the receivers of the old company, (c) subsidiaries partly owned but with some outstanding debt or stock held by the public, and (d) leased lines. These properties were subject, in whole or in part, to 18 separate mortgages securing outstanding bonds. The proposed plan contemplates a single new system subject to new consolidated system mortgages and the elimination of all prior liens. It is also proposed to acquire all stocks, obligations, securities, or other interests in other companies or separately operated property held by the old company or its receivers at the time the plan is effective, to the extent described below. A summary of the properties to be acquired is as follows:

*Formerly owned lines of old company and subsidiaries.*—The lines of railroad formerly owned by the old company and by its subsidiaries Seaboard-All Florida Railway, Florida Western & Northern Rail-

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road Company and East and West Coast Railway (known as the Seaboard-All Florida Lines), a total of approximately 3,670 miles of first main track. The Seaboard-All Florida Lines, approximately 394 miles, have been acquired by the new company pursuant to our authorization of September 30, 1944, in *Seaboard Ry. Co. Acquisition, supra*.

*Lines operated under lease by receivers.*—All outstanding securities of the following subsidiaries of the old company whose properties (except for certain separately operated properties of Tampa Northern Railroad Company) are operated under lease by the receivers: Brooksville and Inverness Railway, Charlotte Harbor & Northern Railway Company, Prince George and Chesterfield Railway, and Tampa Northern Railroad Company. The lines of railroad owned by the above-named corporations (a total of approximately 184 miles of main and branch lines) may be acquired by the new company, either before or after the consummation of the reorganization.

*Corporations' securities deposited under reorganization plan.*—All outstanding stock and all bonds deposited under the reorganization plan of the following corporations: Georgia and Alabama Terminal Company and Tampa & Gulf Coast Railroad Company. The properties of said corporations, which embrace 70.52 miles and 2.42 miles of railroad, respectively, may be acquired by the new company either before or after the consummation of the reorganization. In each case more than 90 percent of the outstanding bonds have been deposited under the reorganization plan. The properties of said corporations, pending their acquisition, will be leased to the new company under the leases hereinafter described.

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*Georgia, Florida & Alabama Railroad Company securities.*—Ten thousand shares of common stock without par value of Georgia, Florida & Alabama Railroad Company and not less than \$1,575,000, principal amount, first-mortgage and refunding 6-percent bonds of Georgia, Florida & Alabama Railroad Company. Georgia, Florida & Alabama Railroad Company is in process of reorganization under section 77 of the Bankruptcy Act and the new company expects to acquire such securities of Georgia, Florida & Alabama Railroad Company as may be issued in the reorganization of Georgia, Florida & Alabama Railroad Company in respect of said bonds. It is not expected that any securities will be issued in respect of said common stock. The District Court of the United States for the Middle District of Georgia has authorized the operation of the properties of Georgia, Florida & Alabama Railroad Company, about 133 miles, by the new company pending the reorganization of that company on such terms as hereafter may be approved by us in that proceeding. Our authorization herein is upon the understanding that the new company will take such steps as are necessary to initiate proceedings in that regard. It is contemplated that the new company will continue to operate said properties after the reorganization of Georgia, Florida & Alabama Railroad Company on such basis as may be approved as part of the reorganization plan of that company.

*Separately operated lines.*—Control through ownership of the following shares of capital stock of the following railroads, such shares now being owned by the old company or held for the benefit of the receivership estate of the old company by its receivers: Macon, Dublin & Savannah Railroad Company, 17,500 shares



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of common stock, 100 percent control; Tavares and Gulf Railroad Company 2,982 shares of common stock, 100 percent control. Said companies operate about 126 miles of railroad.

*Line owning principally equipment.*—The new company will acquire the assets of the Seaboard-Bay Line Company, which consist principally of equipment and equipment-trust obligations assumed by the old company. All of the equipment is leased to the old company by agreement dated November 1, 1923, and supplements thereto. The lease has not been affirmed or disaffirmed by the receivers of the old company, but the equipment has been used by the receivers, pursuant to court orders.

*Water-carrier company securities.*—The new company proposes to acquire all of the funded debt, consisting of \$1,500,000, principal amount of debentures, due January 1, 1991, and 50 percent of the capital stock, represented by 200 shares of common stock of the par value of \$1,000 a share, of the Baltimore Steam Packet Company. In *Baltimore Steam Packet Co. Acquisition and Control*, 244 I.C.C. 583, we authorized the receivers of the old company, and other carriers to acquire control of the Baltimore Company through stock ownership. The remaining 50 percent of the stock of that company is owned by the Chesapeake Steamship Company of Baltimore City, the capital stock of which is owned by the Southern Railway Company and the Atlantic Coast Line Railroad Company. We also approved and authorized under section 5(14)-(16) of the act, referred to as the Panama Canal Act, continuance by the receivers, and the carriers mentioned, of their proceedings in the Baltimore Company. Inasmuch as the proceeding now under consid-

*interests*

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eration involves only the transfer of the interests of the receivers to the new company, it is obvious that such acquisition will not prevent the Baltimore Company from being operated in the interest of the public and with advantage to the convenience and commerce of the people, and operation thereof will not exclude, prevent, or reduce competition on the routes by water considered in that case. Accordingly such acquisition is approved and authorized. 281

*Joint control of other carriers.*—The new company will also acquire joint control with other carriers of the following railroad, express, or terminal companies, through ownership of the shares of stock of each to the extent shown: Albany Passenger Terminal, 55 shares, \$100 par, 4.58 percent; Athens Terminal Company, 125 shares, \$100 par, 50 percent; Birmingham Terminal Company, 250 shares, \$100 par, 16 2/3 percent; Chatham Terminal Company, 250 shares, \$100 par, 50 percent; Columbia, Newberry and Laurens R. Co., 3,335 shares, \$25 par, 16.675 percent; Durham Union Station Co., 83 1/3 shares, \$100 par, 25 percent; Fruit Growers Express Co., 11,854 shares, \$100 par, 12.82 percent; Jacksonville Terminal Co., 938 shares, \$100 par, 25 percent; Norfolk & Portsmouth Belt Line R. Co., 72 shares, \$100 par, 12 1/2 percent; North Charleston Terminal Co., 350 shares, \$100 par, 33 1/3 percent; Railway Express Agency, Inc., 17 shares, no par, 1.7 percent; Richmond-Washington Co., 6,675 shares, \$100 par, 16 2/3 percent; Savannah Union Station Co., 1,000 shares, \$100 par, 33 1/3 percent; Tampa Union Station Co., 200 shares, \$100 par, 66 2/3 percent; and The Wilmington Railway Bridge Co., 200 shares, \$100 par, 50 percent. 282  
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*Leasehold interests.*—The new company will acquire the leasehold interests of the old company or its receivers in the properties of the following lessors, except to the extent that the properties of such lessors may hereafter be acquired by the receivers or the new company (other than those marked with an asterisk, whose properties are not to be acquired).

Brooksville and Inverness Railway. Lease of January 5, 1926, as supplemented October 1, 1928, to old company, 19.02 miles.

Charlotte Harbor & Northern Ry. Co. Lease of March 1, 1928, as supplemented July 23, 1928, to old company, 100.45 miles.

Prince George and Chesterfield Railway. Lease of January 16, 1930, to old company, 15.69 miles.

Tampa Northern Railroad Company. Lease of January 5, 1926, as supplemented October 1, 1928, to old company, 49.47 miles.

\*Central of Georgia Railway Company. Lease of March 28, 1896, to Georgia and Alabama Railway, conveyed by latter to a predecessor in title to old company under date of February 20, 1902, subject to modification or the execution of a new lease pursuant to negotiations between the receivers and the Central of Georgia trustee, 57.48 miles between Meldrim and Lyons, Ga.

\*Georgia Power Company (Columbus Railroad Company, predecessor). Lease of October 31, 1901, between predecessor company and predecessor of old company and supplements thereto, 2.35 miles.

\*McRae Terminal Company. Lease of December 31, 1909, as supplemented August 17, 1914, and November 22, 1924, between terminal company and a predecessor of old company, 1.81 miles switching tracks.

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The new company will lease and operate the properties of Georgia and Alabama Terminal Company and Tampa & Gulf Coast Railroad Company under leases which provide that the new company shall retain all revenues received from the property, pay all taxes, all the costs of operation and shall save the owner harmless from all claims that arise from operation of the properties.

*Trackage rights and joint use of facilities.*—The new company will also acquire the rights now vested in the old company or its receivers to trackage over, or joint use of, lines of railroad and terminals owned or operated by the following railroads and terminal companies, a total of about 33 miles of main lines, except to the extent that the agreements creating such trackage rights or rights of joint use may hereafter be disaffirmed by the receivers or the new company.

Joint Yard, Savannah, Ga. Agreement of May 1, 1916, between Central of Georgia Railway Co., the old company, and the Chatham Terminal Company.

Milton to Navassa, N. C. Agreement of November 8, 1866, as supplemented May 22, 1909, and May 25, 1926, between the Atlantic Coast Line Railroad Co., or its predecessors, and the old company, or its predecessors or receivers of the old company, covering operations of properties of Wilmington Railway Bridge Co.

River Junction, Fla. Agreement dated February 28, 1908, between the Atlantic Coast Line Railroad Company, Louisville & Nashville Railroad Company, predecessor of old company, or its receivers, and the receiver of the Appalachicola Northern Railroad.

Savannah, Ga. Agreement dated May 1, 1902, amended March 1, 1920, between Savannah Union Station Company, Southern Railway Company, Atlantic



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Coast Line Railroad Company, and the old company; Athens, Ga. Operating agreement, dated February 19, 1943, between the Athens Terminal Company, the receivers, and the Gainesville Midland Railroad Company.

Atlanta, Ga. Agreement dated August 19, 1916, between Atlanta Terminal Station Company, the old company, the Southern Railway Company, Central of Georgia Railway Company, Atlanta & West Point Railroad Company, Atlanta, Birmingham & Atlantic Railway Company; and Guaranty Trust Company of New York.

Howells, Ga., to freight depot, Atlanta, Ga. Contract dated November 14, 1930, between The Nashville, Chattanooga & St. Louis Railway, Western & Atlantic Railroad, and the old company.

Howells, Ga., to Terminal station, Atlanta, Ga. Agreement dated August 11, 1916, as supplemented July 7, 1921, between Southern Railway Company and the old company. (further supplemented by agreement dated June 1, 1936, between the receivers and the Southern Railway Company), and agreement dated March 31, 1928, between Southern Railway Company, the old company and Central of Georgia Railway Company.

Birmingham, Ala. Agreement of April 12, 1917, between the Southern Railway Company, the Alabama Great Southern Railroad Company, Central of Georgia Railway Company, Illinois Central Railroad Company, and the old company; as supplemented by agreement dated November 7, 1936, between Southern Railway Company and the receivers.

Birmingham, Ala. Agreement dated March 1, 1907, as supplemented May 18, 1907, and March 29, 1915, be-



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tween Birmingham Terminal Company, Southern Railway Company, Illinois Central Railroad Company, a predecessor of old company, Central of Georgia Railway Company, St. Louis & San Francisco Railroad Company, Alabama Great Southern Railroad Company, and The Equitable Trust Company of New York.

Birmingham, Ala. Agreement dated February 12, 1903, as supplemented August 22, 1904, January 31, 1908, and February 1, 1912, between Birmingham Belt Railroad Company and certain predecessors in title of the old company, as amended by agreement dated January 26, 1940, between the receivers and the Birmingham Belt Railroad Company, trustees of St. Louis-San Francisco Railway Company, receivers of Central of Georgia Railway, and Illinois Central Railroad Company.

Birmingham (freight yard junction) to Bessemer, Ala. Agreement dated February 12, 1903, as supplemented June 1, 1905, between Kansas City, Memphis & Birmingham Railroad Company and predecessors in title of Seaboard Air Line Railway, a predecessor of old company.

Montgomery, Ala. Agreement dated November 20, 1899, between Central of Georgia Railway Company and Georgia and Alabama Railway, predecessor of the old company.

Montgomery, Ala. Agreement effective on and after May 1, 1898, between Louisville & Nashville Railroad Company and Georgia & Alabama Railway, a predecessor in title of the old company, covering use of union passenger station facilities.

Jacksonville, Fla. Agreement dated June 1, 1917, between Jacksonville Terminal Company, Atlantic Coast

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Line Railroad Company, Florida East Coast Railway Company, the old company, Southern Railway Company, and United States Trust Co. of New York (as supplemented by agreement also dated June 1, 1917, between the aforesaid parties and Georgia, Southern and Florida Railway Company and as further supplemented by agreement dated October 1, 1921, between the parties first enumerated above); also agreement dated April 4, 1939, between Jacksonville Terminal Company, Atlantic Coast Line Railroad Company, the receivers of Florida East Coast Railway, receivers of the old company, Southern Railway Company, and the United States Trust Company of New York.

Tampa, Fla. Agreement dated November 1, 1940, between Tampa Union Station Company, the receivers, and Atlantic Coast Line Railroad Company.

Raleigh to Cary, N. C. Agreement dated January 5, 1915, as supplemented January 1, 1926, between Southern Railway Company and the old company, or a predecessor in title.

Miscellaneous tracks, 3.39 miles of miscellaneous passing, switching, and other tracks owned by other railroads over which the old company has trackage rights.

*Consideration for acquisition of properties.*—To acquire the properties and rights above described the new company proposes to pay cash, as stated below, and to issue securities and assume obligations and liabilities as follows:

*Securities issues.*—It is proposed to issue a maximum amount of the following securities: \$32,500,000 of first-mortgage 50-year 4-percent bonds, series A; \$52,500,000 of income-mortgage 70-year 4-1/2-percent bonds, series A; \$15,000,000 of preferred stock 5 per-

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cent, series A, par value \$100; 849,997 shares of common stock without par value but with stated value of \$100 a share; and an additional amount not exceeding 675,000 shares of common stock, or such part thereof as may be necessary to comply with the conversion rights of the income-mortgage 4 1/2-percent bonds, series A, and preferred stock, series A, as may be issued under the plan.

*Assumption of obligation and liability.*—(a) *Receivers' obligations.*—Pursuant to the plan it is proposed to assume obligation and liability of the receivers of the old company, as guarantors, in respect of not exceeding \$13,588,000 of receivers equipment-trust certificates.

(b) *Obligations of receivers or old company, or both, as guarantors and lessees, in respect of the following securities.*—One million nine hundred and forty thousand dollars (\$1,940,000) of Birmingham Terminal Company first-mortgage 4-percent bonds, due March 1, 1957, guaranteed severally by six companies, old company's portion \$323,333.33; the following securities of Jacksonville Terminal Company, all guaranteed jointly and severally; \$100,000 first and general mortgage 5-percent bonds, due July 1, 1967, \$2,400,000 refunding and extension mortgage 5-percent bonds, series A, due July 1, 1967, \$1,000,000 refunding and extension mortgage 6-percent bonds, series B, due July 1, 1967, and \$400,000 refunding and extension mortgage 4 1/2-percent bonds, series C, due July 1, 1967; and \$200,000 first-mortgage 4-percent bonds of Tampa Union Station Company, due October 1, 1958, guaranteed jointly and severally.

(c) *Obligations of receivers or old company, or both, as guarantors, in respect of the following securi-*

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ties.—Two hundred and eighty thousand dollars (\$280,000) of Norfolk and Portsmouth Belt Line Railroad Company 1 1/2-percent serial promissory notes, due in annual installments of \$70,000 each in September 1 in each year to and including September 1 1949, guaranteed jointly and severally.

(d) *Obligations of receivers or old company, or both, as lessee*, (by lease or operating agreement) in respect of the following securities, to the extent that the old company, or its receivers, or both, are obligated to pay as rent an amount equivalent to interest; dividends, or sinking-fund installments on these securities, and without creating or retaining any other obligation or liability of the old company or its receivers, or either, in respect of the principal of, or the interest or dividends or sinking-fund installments on these securities:

*Athens-Terminal Company*.—Two hundred thousand dollars (\$200,000) of first-mortgage 5-percent bonds. Operating agreement dated February 19, 1943, between that company, the receivers of the old company and the Gainesville Midland Railroad Company.

*Birmingham Terminal Company*.—One thousand five hundred shares of capital stock, \$100 par value, owned in equal amounts by six lessee companies. Agreement dated March 1, 1907, as supplemented May 18, 1907, and March 29, 1915.

*Durham Union Station Company*.—Sixty thousand dollars (\$60,000) of first-mortgage 5-percent bonds, due May 1, 1955. Agreement dated May 1, 1905, as amended December 10, 1907, between that company and 4 lessees, 1 the old company's predecessor. Also 333 shares of capital stock, par value \$100 a share.

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Agreement of May 1, 1905, as above. Old company's portion 83 1/3 shares.

*North Charleston Terminal Company.*—One thousand and fifty shares of capital stock, par value \$100 a share. Owned in equal amounts, by three lessees, one the old company. Agreement dated December 20, 1916, between lessor and lessees.

*Savannah Union Station Company.*—Six hundred thousand dollars (\$600,000) of first-mortgage 4-percent bonds, due April 1, 1952 (includes \$304,000 of bonds reacquired and held alive in sinking fund as of January 1, 1946). Agreement dated May 1, 1902, amended March 1, 1920, between station company and three lessees, one the old company's predecessor.

*Tampa Union Station Company.*—Three hundred shares capital stock \$100 par value, owned in equal amounts by three companies, including old company and one of its wholly owned subsidiaries, Tampa Northern Railroad Company.

Agreement dated November 1, 1940, between station company and two lessees, receivers of old company and the Atlantic Coast Line Railroad Company.

*Atlanta Terminal Company.*—One million six hundred thousand dollars (\$1,600,000) of first-mortgage 4-percent bonds, due August 1, 1969. Agreement dated August 19, 1916, between terminal company and five lessees, one of which is the old company.

The old company pays its user proportion of interest on total issues of \$1,600,000 of bonds, but does not contribute to the sinking fund for redemption of these bonds. Funds for which are provided in equal proportions by the three stockholders. Certain of these bonds have been redeemed and are held alive in sinking fund, but the bonds continue to bear interest. Also



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1,500 shares of capital stock, \$100 par, owned in equal amounts by Southern Railway Company, Central of Georgia Railway Company, and Atlanta and West Point Railroad Company.

The following securities are to be dealt with in the plan:

(1) *Obligations of receivers.*—A total amount of \$13,588,000 of receivers' equipment-trust certificates will be assumed by the new company.

(2) *Seaboard underlying divisional mortgage bonds.*—A total amount of \$51,575,262.67, consisting of \$30,015,000 of principal and \$21,560,262.67 of interest (as of March 31, 1946), will be settled by the payment of \$2,339,500 of cash and issues of \$41,493,169 of various securities.

(3) *Seaboard general-mortgage bonds.*—A total of \$211,507,839.68, consisting of \$94,115,500 of principal and \$117,392,339.68 of interest (as of March 31, 1946), will be settled by the payment of \$5,551,200 of cash and the issue of \$113,617,192 of various securities.

(4) *Seaboard collateral-trust obligations.*—A total of \$42,385,599.73, consisting of \$21,316,402 of principal and \$21,069,197.73 of interest (as of March 31, 1946), will be settled by the payment of \$1,316,700 of cash and the issue of \$27,275,612 of various securities.

(5) *Subsidiary railroad and terminal companies, properties of which are operated by receivers as part of the system.*—A total of \$4,453,200, consisting of \$2,184,000 of principal and \$2,269,200 of interest (as of March 31, 1946), to be settled by the payment of \$118,800 cash and the issue of \$2,454,179 of various securities.

(6) *The Seaboard-Bay Line Co. section 210 loan-deficiency claim.*—A total indebtedness of \$395,375.92

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(as of March 31, 1946), which is to be settled by the payment of \$8,100 cash and the issue of \$159,848 of various securities. 821

(7) The new company has paid \$1,720,669.89 in cash (the money being advanced by the receivers) on account of the purchase price of the Seaboard-All Florida Lines. The balance of the purchase price of said property has been paid by the use of bonds and other obligations owned by the receivers.

By orders of the District Court of the United States for the Eastern District of Virginia, and the District Court of the United States for the Southern District of Florida, dated respectively, September 8 and 9, 1944, the plan was modified in accordance with the requirements of our report of August 12, 1944, *supra*, and the securities described below are in accordance therewith. 822

A description of the new securities to be issued is given below:

*First-mortgage bonds.*—\$32,500,000 of first-mortgage 50-year 4-percent bonds, series A, will be issued under and pursuant to, and will be secured by the Seaboard's first mortgage dated January 1, 1946, to be made to the Mercantile Trust Company of Baltimore and Nelson H. Stritehoff, as trustees, and will be issued forthwith upon the execution of the mortgage. The mortgage authorizes the issue of bonds in series, those of series other than A to be determined as to amount and provisions by the board of directors and specified in a supplemental indenture. The authorized aggregate principal amount of bonds will be unlimited. The series A bonds in coupon form will be dated January 1, 1946, and the registered bonds as of the interest-payment date last preceding the date of au- 823 824

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thentication, including January 1, 1946, as an interest-  
payment date, or if the date of authentication be an  
interest-payment date, as of that date; will bear  
interest at the rate of 4 percent per annum, payable  
on January 1 and July 1 in each year beginning July  
1, 1946; and will be payable both as to principal and  
interest in such coin or currency of the United States  
as at the time of payment is legal tender for the pay-  
ment of public and private debts. They will be issu-  
able in coupon form in denominations of \$100, \$500,  
and \$1,000, and as registered bonds without coupons in  
denominations of \$1,000, \$5,000, and \$10,000, and any  
other denominations which may from time to time be  
authorized by the board of directors. The series A  
coupon bonds and registered bonds without coupons  
will be interchangeable in denominations of \$1,000 or  
more. The series A bonds will mature January 1, 1996.  
They will be redeemable at the option of the company  
at any time as a whole or in part upon payment of the  
principal amount with all unpaid interest accrued to  
the redemption date. Under the sinking fund to be  
provided the company will pay to the corporate trustee  
in cash for the series A sinking fund on or before  
May 1 in each calendar year, beginning in 1947, and  
continuing so long as any series A bonds are outstand-  
ing, to the extent that available net income for the  
preceding calendar year applicable to the series A  
sinking fund is sufficient for the purpose, an amount  
equal to 1 percent of the maximum principal amount  
of series A bonds at any one time outstanding, plus  
any amount, not previously made up, by which avail-  
able net income for any previous year or years has  
been insufficient for the entire payment to the series  
A sinking fund for such year or years. Each payment

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into this sinking fund will be applied to the retirement of series A bonds by purchase, payment or redemption at the redemption price, or cost to the company exclusive of interest. If, on the last day of February in any year after 1947, there remains in the series A sinking fund \$50,000 or more, the trustee will apply the amount then in the series A sinking fund to the redemption of bonds of series A on the next succeeding May 1. Moneys in the series A sinking fund may at any time be applied to the redemption of series A bonds if the company so elects. Bonds purchased or redeemed by the operation of the series A sinking fund will be canceled and no bonds will be issued to refund the bonds so purchased or redeemed. Any amounts payable into any sinking fund for any series of bonds other than series A will be applied as provided in the supplemental indenture creating such series.

So long as any bonds remain outstanding, available net income, computed on a calendar year basis, will be determined for each year beginning with 1946. So long as securities may be exchanged under the plan of reorganization, available net income will be computed as if all new securities issuable under the plan had been issued as of January 1, 1946. For the purpose of computing available net income for the year 1946, the income after fixed charges for any period between January 1, 1946, and the date of delivery of the properties will be deemed to be the income available for fixed charges reported for that period by the receivers of the property of the old company less the sum of (a) interest for that period on all debt of the receivers assumed by the new company and rent paid for leased road and equipment except under leases from a subsidiary, and (b) interest for that period on all series

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A bonds. Available net income for any year will be the sum of (a) the income (or deficit) after fixed charges for such year and (b) the net income (or deficit) for such year of all 90-percent subsidiaries whose properties are not operated by the company, under lease or otherwise, after deducting any dividends paid in cash in such year on stock of any such 90-percent subsidiary not owned by the new company or by a subsidiary and adjusting the results as set forth in the mortgage.

Available net income will be applied as follows: At its determination, a credit will be made to a memorandum account designated as the capital fund account in an amount equal to the greater of either \$1,625,000, or 3 1/4 percent of the railway operating revenues of the new company and its 90-percent subsidiaries for such year, less the depreciation credit for such year, plus any amount by which available net income for any previous year or years shall have been insufficient for the maximum permissible appropriations. Any remaining net income will be applied to the payment on the next May 1 of the installment of the sinking fund for series A bonds, and income remaining thereafter to sinking-fund requirements of bonds of series other than series A. Any remaining income is to be applied to sinking-fund requirements of any outstanding emergency bonds, and any remaining income to the payment of interest on then outstanding income bonds in accordance with the provisions of the general mortgage, after which the sinking-fund requirements of those bonds will be paid. Any remaining net income is to be applied as provided in section 7 and in subparagraph (b) of section 6, of article six of the mortgage,



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after which any remaining income may be applied to the proper corporate purposes of the new company. 337

If, on any July 1, the unappropriated balance in the capital-fund account exceeds \$2,500,000, the new company is to dispose of it by transferring such excess, in whole or in part, to any sinking fund then in effect for first-mortgage bonds or income bonds of any series, or by paying such excess, in whole or in part, to the general-mortgage corporate trustee, or if no income bonds are outstanding, to the corporate trustee of the first mortgage to be held as a special capital fund until disposed of as provided in the general mortgage or in the first mortgage. 338

By concurrent action of the new company and of the bearers or registered owners of not less than 66 2/3 percent in aggregate principal amount of the outstanding series A bonds the time of payment of any interest installment on the series A bonds may be postponed to a fixed date but not later than January 1, 1996, but the number of such postponed semiannual installments may not exceed 10. The indenture may be modified to the extent specified by the same course of action. 339

*General-mortgage bonds.*—These bonds will be issued under and pursuant to and will be secured by an indenture, dated January 1, 1946, to be made to the Guaranty Trust Company of New York and Arthur E. Burke as trustees. The authorized aggregate amount of bonds issuable thereunder will be unlimited. The series A bonds will be designated as to the company's general-mortgage 4 1/2-percent income bonds, series A. Bonds of other series will be issuable as from time to time authorized by the board of directors of the company. Each series will be distinguished 340

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by a serial letter or otherwise, and the coupon bonds and the registered bonds without coupons (if any), and the several denominations of each will be distinguished by appropriate letters and numbers.

Series A bonds in the amount of \$52,500,000 will be dated as of the date of their authentication, but, if so requested, may be dated January 1, 1946, will bear interest at the rate of 4 1/2 percent per annum, payable on May 1 after the date thereof, but not earlier than May 1, 1947, to and including May 1, 2015, and on January 1, 2016, and will mature January 1, 2016. They will be payable as to principal and interest in such coin or currency of the United States as at the time of payment may be legal tender for the payment of public and private debts; will be redeemable before maturity at the option of the company as a whole or in part at any time. They will be issuable in the form of registered bonds without coupons in the denominations of \$100, \$500, \$1,000, \$5,000, and \$10,000, and any other denominations which may be authorized by the board of directors, and the several denominations of the series A bonds will be interchangeable, but no series A bonds of less than \$1,000 denomination may be exchanged.

Pending the preparation of the definitive bonds of any series, the new company may execute and upon its request, the corporate trustee will authenticate and deliver temporary bonds in any denomination substantially of the tenor of the definitive bonds in lieu of which they are issued, in bearer or registered form, with or without coupons, and with such variations as may be appropriate.

Provision is made for the issue of additional income bonds of any series for the purposes and under the

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conditions specified in the general mortgage. However, as the issue of additional bonds is not now contemplated, it is unnecessary to consider these provisions herein. 345

Series A bonds will be redeemable in whole or in part at any time upon due notice, upon payment of the principal amount of series A bonds to be redeemed, plus an amount equal to the sum of (1) interest at the rate of 4 1/2 percent of the principal thereof from January 1 of the preceding calendar year (or January 1, 1946, whichever is later) to the redemption date; (2) any unpaid earned interest as of January 1 of such preceding calendar year, and (3) all accumulated unpaid interest as of January 1 of such preceding calendar year, to the extent that the amounts specified above shall not have been paid prior to the redemption date. 346

The redemption provisions of any series of bonds other than series A may be prescribed by the board of directors prior to their issue and set out in a supplemental indenture.

A sinking fund will be provided for the series A bonds into which will be paid in cash on or before May 1 in each calendar year so long as any series A bonds are outstanding to the extent that available net income for the preceding calendar year is sufficient, an amount equal to one-half of 1 percent of the maximum principal amount of series A bonds at any time outstanding, plus any amount by which available net income for any previous year or years shall have been insufficient for the entire payment of the series A sinking fund for such year or years. All payments into the series A sinking fund will be applied to the retirement of series A bonds by purchase, payment, 347 348

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or redemption, at not exceeding the redemption price,  
or if purchased from the company at the cost to it ex-  
clusive of accrued interest.

If, on the last day of February in any year after 1947 there remains in the series A sinking fund \$50,000 or more, the trustee will apply the amount then in the fund to the redemption of series A bonds on the next succeeding May 1. Series A bonds purchased or redeemed by operation of the series A sinking fund will be canceled and no bonds issued to refund them.

Interest for the year 1946 and subsequent years, including 2014, will accrue as a debt on December 31 of each year, and to the extent funds applicable to its payment are sufficient will be payable on May 1 of the following year. Interest for the year 2015 will be payable whether or not earned, on January 1, 2016. In the discretion of the board of directors, amounts applicable to the payment of interest need not be paid if such amount is less than 1 percent of the principal amount of the outstanding series A bonds, but is to be added to the amount payable as interest for the next succeeding year or years. If, at the end of any calendar year prior to maturity of the series A bonds, whether by declaration or otherwise, the amount of accrued and unpaid interest, less the amount of available net income for such year applicable to the payment of such interest, would exceed 18 percent of the principal amount of the outstanding series A bonds, interest for such calendar year, to the extent of such excess, will not accrue, but otherwise accrued and unpaid interest will accumulate and will become payable on the next succeeding interest-payment date or dates as and to the extent earned. All unpaid earned interest and all accumulated unpaid interest, whether

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or not earned, will be payable on the maturity of the series A bonds. So long as any series A bonds are outstanding, no interest on any other series of bonds will rank prior to, or on a parity with, interest on the series A bonds.

All computations of available net income will be on a calendar year basis, which will be determined and applied as set forth under the first mortgage.

At the election of the holders of series A bonds of the denomination of \$1,000 or any multiple thereof, these bonds may be converted at any time prior to maturity into shares of common stock of the new company, at the rate of 10 shares of common for each \$1,000, principal amount of series A bonds, without adjustment for accrued interest on the series A bonds converted, or for dividends on the common stock issued on conversion. The new company has reserved for the conversion of series A bonds 525,000 shares of its common stock.

Both the first mortgage and the general mortgage will provide that no dividend, except a stock dividend, is to be paid in any calendar year on the common stock in excess of \$1,700,000, plus an amount equal to \$2 a share on any shares issued in excess of the 850,000 shares contemplated by the plan, unless prior to the declaration of such dividend there is set aside out of net income an amount equal to such excess dividend which is to be credited to a debt retirement fund account and is to be paid to the corporate trustee of the first mortgage or the general mortgage as determined by the board of directors and added to any sinking fund for such bonds.

**Stock.**—The maximum number of shares of the corporation authorized by the amended articles of as-



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347 sociation is 2,500,000 shares, of which 500,000 will be preferred stock of the par value of \$100 a share; of the latter 150,000 will be designated as "preferred stock, series A," and 350,000 additional shares will be available as preferred stock, series A. The amount of common stock will consist of 2,000,000 shares without par value, of which 525,000 will be reserved to provide for the conversion of general-mortgage income 4 1/2-percent bonds, series A, 150,000 shares will be reserved to the extent required to provide for the conversion rights of the preferred stock, series A, and the remaining shares may be issued at such 358 time or times, at such price, and upon such conditions as prescribed by the board of directors. Shares of stock of the corporation reacquired by it by repurchase, redemption, conversion, or in exchange for shares of another class and series, or otherwise, will continue to be within the total authorized amount of the capital stock of the corporation, and may be held as treasury stock, or retired and given the status of unissued shares by resolutions of the board of directors.

359 The holders of the capital stock of the corporation, whether preferred or common stock, will not have the preemptive right to subscribe to any additional issue of stock of any class or series or of securities convertible into stock.

360 The capital represented by each share of stock when issued in the case of par-value stock, will be an amount equal to the par value thereof, and in the case of no-par-value stock issued pursuant to the plan of reorganization, will be \$100 a share. In the case of no-par-value stock issued in exchange for or in conversion of other securities of the corporation, the capital will be

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an amount per share equal to the aggregate principal amount or par value, or, in case of securities without par value, the capital value, of the securities so exchanged or converted, divided by the number of shares of no par value so issued. The capital represented by each share without par value issued as a dividend on outstanding shares of any class, will be an amount per share equal to the sum transferred from surplus to capital account with respect thereto, divided by the number of shares without par value so issued; and in all other cases of the issue of no-par-value shares, will be an amount per share equal to the money and/or the value of any services or property paid for such shares as fixed at the time of issue.

The preferred stock will be preferred as to both earnings and assets over the common stock, and in the event of any voluntary or involuntary liquidation or winding up of the corporation, the holders of preferred stock will be entitled to receive out of the assets of the corporation available for distribution to its stockholders; whether from capital, surplus, or earnings, before any distribution of assets is made to the holders of common stock, an amount equal to the par value thereof, plus an amount equal to current dividends thereon from the beginning of the current calendar year to the date of such distribution, plus an amount equal to any accrued and unpaid cumulative dividends thereon, plus such premiums, if any, as may be specified for any series of preferred stock, other than series A, but will not be entitled to any further participation in such assets. If, upon any voluntary or involuntary liquidation or dissolution or completion of the affairs of the corporation, the assets distributable on or in respect of the preferred

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186 stock are not sufficient to pay in full the amounts aforesaid, the holders of shares of preferred stock of all series will share ratably in any distribution of assets in proportion to the maximum amounts payable on such shares respectively. No merger or consolidation with or into any other corporation which will not in fact result in the liquidation of the enterprise and the distribution of assets to stockholders is to be deemed to be a liquidation, dissolution, or completion of the affairs of the corporation.

Each holder of record of preferred or common stock will be entitled at each meeting of the stockholders to one vote for each share of preferred or common stock.

366 Until, within some period of 18 calendar months, dividends equivalent in amount to six quarterly dividends at the maximum rates borne by the preferred stock shall have been paid on all outstanding preferred stock, the holders of the outstanding preferred stock, voting separately as a class will be entitled to elect two of the directors of the corporation. If, after the holders of the preferred stock shall have ceased to be entitled as a class to elect two of the directors of the corporation, the amount thereafter paid in dividends on outstanding preferred stock within any period of 18 consecutive calendar months is not equivalent to 367 six quarterly dividends at the maximum rate borne by the preferred stock on all outstanding preferred stock during such period plus a proportionate amount on preferred stock outstanding during a part of such period, the holders of the preferred stock voting as a class will again, and from time to time whenever such event occurs, be entitled to elect two of the directors of the corporation, in addition to their right 368 to vote with the holders of the common stock in the election of the remaining directors of the corporation,

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until the corporation has within a period of 18 calendar months paid dividends on all outstanding preferred stock, in an amount equivalent to six quarterly dividends at the maximum rates borne by the preferred stock on all outstanding preferred stock during such entire period, plus a proportionate amount on preferred stock outstanding during part of such period. Any director elected by the holders of the preferred stock, voting as a class, will continue to serve as such director for the full term for which he was elected, notwithstanding that prior to the end of such term the holders of preferred stock ceased to be entitled as a class to elect two of the directors of the corporation as provided. 369 370

Preferred stock, in addition to the 150,000 shares of preferred stock, series A, presently to be issued, may be issued from time to time as additional preferred stock, series A, or as preferred stock of any other series, one or more, in the discretion of the board, but no preferred stock in excess of 150,000 shares may be issued without the concurring vote or written consent of the holders of a majority of the outstanding preferred stock, voting separately and as a class, unless such preferred stock is issued 371

(a) to refund bonds or other obligations issued or assumed by, or secured by lien on the property of the corporation or a subsidiary company;

(b) to retire preferred stock of a subsidiary company;

(c) to provide for capital expenditures to be made by the corporation or by a subsidiary company; or 372

(d) to reimburse the corporation for expenditures made for any of the purposes stated.

373 Out of the net earnings or net assets of the corporation legally available for the payment of dividends, the holders of preferred stock, series A, will be entitled to receive, when and as declared by the board of directors, but subject to the rights of any other series of preferred stock hereafter created, current dividends in cash at the rate of 5 percent per annum, in respect of each calendar year, beginning with 1946, and no more, payable annually, semi-annually, or  
374 quarterly as the board may from time to time determine, before any sum or sums out of the earnings of such calendar year may be applied to (a) the purchase or redemption of preferred or common stock, or (b) the payment of dividends on common stock. Such dividends on the preferred stock, series A, will not be cumulative, whether or not earned in any calendar year, but dividends on preferred stock, series A, up to an aggregate of 5 percent may be paid out of earnings of any calendar year or at any time thereafter. Dividends on preferred stock, series A, will be deemed  
375 to be paid out of earnings of the calendar year last preceding the year in which paid unless otherwise specified by the board of directors at the time of declaration. No dividends will be declared or paid on the common stock out of earnings of any calendar year unless and until dividends at the rate of 5 percent per annum on the series A preferred and full dividends for such calendar year on all other series of preferred stock then outstanding, including all unpaid accumulated dividends, shall have been paid out  
376 of such earnings, or shall have been declared and set aside in trust for payment out of such earnings.



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After dividends of 5 percent per annum have been paid out of earnings, and full dividends for such calendar year on all other series of preferred stock, including all unpaid accumulated dividends, if any, or such dividends have been declared and set aside in trust, the common stock will be entitled to receive all additional amounts distributed as dividends out of the earnings of such calendar year, but no dividends will be paid on the common stock in any calendar year unless dividends on the preferred stock, series A, at the rate of 5 percent per annum and full dividends for such calendar year on all other series of preferred stock at the time outstanding, together with all unpaid accumulated dividends thereon, if any, have been paid in such calendar year; or declared and set aside in trust for payment in such calendar year. 377

The rights of stockholders in respect of dividends will be subject to the power of the board of directors from time to time to make and set aside out of net earnings or net assets, such reserves and to make such other provisions, if any, as the board may deem necessary or desirable for working capital, additions, betterments and improvements and for acquisition or construction of new or additional railroad equipment, for debt retirement, and for any other lawful purpose or object. The board may also authorize the use of any available corporate funds for the purpose of purchasing stock of the corporation of any class, or of redeeming redeemable stock. 379

The preferred stock, series A, will not be entitled to any premium in event of any voluntary or involuntary liquidation or dissolution or completion of the affairs of the corporation. 380

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381 Shares of preferred stock, series A, will be convertible at the option of the respective holders at any time, share for share, into full paid and nonassessable shares of common stock of the corporation, as of the time constituted and at all times the corporation will reserve for such purpose a number of shares of such common stock sufficient to convert all the preferred stock, series A, at any time issued and outstanding. No payment or other adjustment will be made by the corporation or by the holder of the preferred stock, series A, surrendered for conversion in respect of dividends, whether or not declared, on the shares of  
382 preferred stock, series A, surrendered for conversion or on the shares of common stock issuable upon conversion.

In case of the redemption of any or all of the shares of preferred stock, series A, the right of conversion will cease as to the shares called for redemption at the close of business on the business day next preceding the date fixed for redemption, unless default be made in the payment of the redemption price. All common stock issued on conversion of preferred stock,  
383 series A, will be fully paid and nonassessable free of any stamp tax or governmental charge in respect of the issue and delivery of such certificates. Series A preferred stock may be redeemed in whole or in part at any time at \$100 a share, plus unpaid dividends, plus an amount equal to 5 percent per annum on the par value of the preferred stock from the beginning of the current calendar year to the redemption date, less any dividends theretofore declared from earnings in such year. If less than all the outstanding  
384 shares are to be redeemed, the redemption may be made either by lot or pro rata.

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Preferred stock of any series, one or more, other than series A, may be created out of the additional 350,000 shares of preferred and may bear dividends as such rate, cumulative or noncumulative, may be redeemable or nonredeemable, and may have such other rights and privileges, and be subject to such limitations and restrictions as may be determined by the directors prior to its issue.

In December 1945, the Virginia court directed that there should be distributed to holders of outstanding bonds subjected to the plan a sum not exceeding \$9,334,300, which was to be applied to the payment of interest accrued for the year 1945, or, to the extent that the amount distributed on any particular issue of bonds might exceed the interest accrued thereon for the year 1945, to interest accrued for the year 1944. This amount will be distributed as among the different issues in accordance with section VI of the plan, and pursuant to court order R-22, as shown in appendix A. Of the sum of \$9,334,300 to be so distributed,<sup>1</sup> \$9,207,400 will be paid out of earnings between June 1, 1945, and the date of consummation, to the extent that earnings are sufficient therefor, and the balance will be paid out of other cash and current assets available to the new company in the reorganization. It is expected that this distribution will be made at the same time as new securities are distributed. As the earnings for the period from May 31, 1945, to the

<sup>1</sup> The estimated amount of \$2,194,927.42, as shown in appendix C, payable to holders of bonds subject to the plan, in case they do not become subject thereto hereafter, is based on the proceeds of sale of parcels of property subject to the respective mortgages, and assumes that the earnings of the mortgaged property for the period between May 31, 1945, and the consummation of the plan, will not exceed \$9,207,400; the maximum amount to be distributed to bondholders out of such earnings on consummation of the plan, pursuant to Order R-22 of the Virginia court.

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delivery date cannot be determined at this time, it is not possible to state how much of this sum will be payable out of earnings, and how much out of cash to be reserved by the reorganization committee pursuant to the purchase agreement. It is not expected that the financial position of the new company will be affected by the source from which such payment is made, since the purchase agreement contemplates that the new company will ultimately receive an amount substantially equivalent to the earnings from May 31, 1945, to the delivery date, less such amounts as are distributed to bondholders out of such earnings, either because of Order No. R-22 or because certain bondholders elect not to participate in the plan and become entitled to receive their proportionate shares of such earnings as finally determined.

The new company will ultimately receive, in addition to the physical properties and other assets, an amount equal to the net current assets and net reserves in the hands of the receivers at the delivery date, less

- (a) such part of the sum of \$10,000,000 reserved by the final decree (or such smaller sum as represents the balance then remaining of the \$10,000,000 reserve fund) as may be required to be used for the purposes therein specified,
- (b) the \$9,334,300 to be distributed pursuant to Order No. R-22, and
- (c) any additional participation in earnings subsequent to May 31, 1945, to which any dissenting bondholder may be entitled in excess of such dissenting bondholder's share of the sum of \$9,334,300.

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Under the plan no provision is made for holders of the present adjustment bonds, unsecured claims not entitled to priority, preferred or common stock. The new company will not assume certain contingent liabilities, either as to principal or interest, on guaranties of obligations of the companies shown in the plan whose properties are not to be dealt with in the reorganization, or are to be contingently dealt with.

Also, certain claims not affected by the plan will be paid in cash in due course, unless otherwise provided for either by receivers or by the new company. Those not paid in cash will be assumed by the new company and paid in the usual course of business. These include personal injury claims to employees of any of the corporations involved in the reorganization claims of personal representatives of deceased employees of these railroads, taxes and assessments not otherwise provided for, due to the United States, any State, municipality, or other taxing authority, from any railroad corporation the properties of which are included in the plan. Claims not otherwise dealt with in the plan against any railroad corporation, the properties of which are dealt with in the plan, incurred in the ordinary course of business prior to December 23, 1930, and thereafter by the receivers appointed in creditors and foreclosure suits in equity, to the extent that such obligations are entitled to priority over mortgage bonds of such railroad corporations. Also excluded from the plan are claims other than those specifically mentioned, which are entitled to priority of payment over any mortgage bond of any railroad corporation, the properties of which are dealt with in the plan, by virtue of State or Federal laws. Pensions theretofore granted to employees by corporations, the



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397 properties of which are involved in the plan, and are being paid by such corporations, or their receivers. Also excluded are unsecured claims which would have been entitled to priority if a receiver in equity of the property had been appointed by a Federal court on the day of approval of the petition.

398 The new company will pay in cash but without interest any unpaid interest on bonds publicly held of any of the corporations the properties of which are involved in the plan, which are due and declared payable, but were unpaid prior to December 23, 1930, and unpaid interest payable thereafter and prior to the date of consummation, under court orders, on demand.

Within 1 year after transfer of the properties of the old company to the new company, the latter may disaffirm executory contracts and leases of the railroad corporations, the properties of which are dealt with in the plan, except those made binding by court orders.

399 Interests in suits pending at the date of transfer, in which any of the corporations, the properties of which are dealt with in the plan, are parties, will be assigned to the new company for continuing prosecution.

400 By order dated March 5, 1946, the Virginia court, in an order designated R-24, approved the form of the proposed first mortgage and the general mortgage as modified, both dated January 1, 1946, the proposed amendment to the articles of association of the Seaboard Air Line Railroad Company, the proposed voting-trust agreement, dated April 1, 1946, the proposed scrip agreement providing for the issue of scrip for first-mortgage bonds, general-mortgage bonds, and preferred stock, series A, subject to such modification of the general mortgage as may be necessary to pro-

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vide in substance that so long as any general-mortgage bonds, series A, are outstanding, no dividends will be paid on any stock of any class out of any surplus resulting, because of deduction of \$400,000 in determining available net income from earnings for any year in which available net income applicable to interest on general-mortgage bonds was insufficient to pay full interest for that year and all accumulated unpaid interest.

Pursuant to recommendations contained in the special master's report the court ordered that by the end of 1944 two special reserve funds be set aside by the receivers, one for \$6,000,000, thereafter increased to \$10,000,000, for the purpose of providing for expenses of reorganization and other requirements; and the other \$11,000,000, to be used only with court approval, for additions and betterments to overcome deferred maintenance, and for other contingencies, looking to the adjustment of the property to post-war conditions and requirements, or after reorganization, as the board of directors of the reorganized company may determine, subject to court restrictions. This fund is expected to provide for the completion of the extraordinary capital expenditure program and for making up all deferred maintenance, if used for these purposes, but will not be needed if earnings are available therefor. The \$10,000,000 fund is expected to exceed the expenses of reorganization, so the new company is of the opinion that it will have adequate working capital.

A constructed balance sheet as of December 31, 1945, (appendix D) shows current assets of \$51,712,810, including cash of \$8,644,997, temporary cash investments of \$14,007,587, and special deposits of \$194,

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014. This balance sheet excludes the two reserve funds described above, aggregating \$19,334,300 created by the court. The current liabilities are shown as \$23,129,102, making the net current assets \$28,583,708. However, since the balance sheet was made, a tax plural of \$2,969,318 in respect of Federal income and excess tax profits and State income tax over accruals has been canceled. This item was carried under current liabilities and its cancellation would increase the net current assets by that amount to \$31,553,026. In the constructed balance sheet deductions aggregating \$1,799,388 were made to allow for purchase of certain outstanding receivers' certificates, purchase of outstanding Raleigh bonds, and of outstanding bonds of certain leased lines, as well as the redemption of \$21,100 of receivers' certificates.

As of the date of the last hearing, April 15, 1946, there had been subjected to the plan more than 97 percent in principal amount of all securities dealt with under the plan, and the new company is advised that the reorganization committee under the plan is now prepared to consummate the plan, subject to necessary approvals of the courts and of this Commission.

The valuation of the properties, and the earnings from operation of the properties are set forth in our report of August 12, 1944, in *Seaboard Air Line Ry. Co. Receivership, supra*.

## VOTING TRUST AGREEMENT

The voting-trust agreement dated April 1, 1946, between Seaboard Air Line Railroad Company (new company), the holders of voting trust certificates and scrip therefor, and Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Husbands,

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and Legh R. Powell, Jr., as voting trustees, appointed by the courts having jurisdiction of the receivership proceedings, provides (1) That in order to protect the continuity of management and the interest of the bondholders, all shares of the new company's common stock issued under the plan shall be issued to the five voting trustees. (2) Upon delivery to the depository, at the time in office, of a certificate or certificates of the common stock of the new company in negotiable form or registered in the names of the voting trustees or their nominees, the depository shall execute and cause to be delivered in accordance with any request by the voting trustees or requisition by the reorganization managers, delivered to the depository, voting-trust certificates and scrip for the aggregate number of shares of common stock represented by the stock certificate or certificates. The voting-trust certificates so issued shall be registered in the names and be of the denominations specified in the request. All scrip certificates shall be in bearer form issued in denominations of 1/10,000 of a share and multiples thereof, shall not bear dividends and shall not entitle the holder to any of the rights of a voting-trust certificates but shall be exchangeable for voting-trust certificates when presented in proper multiples. (3) The scrip certificates shall be void if not exchanged before March 31, 1952, provided, however, that they shall not become void until the termination of the voting-trust agreement if such agreement extends beyond April 1, 1952. Whenever certificates for shares of common stock, other securities, cash or property of the new company, under the terms of this agreement, are deliverable or distributable to the holders of voting-trust certificates a proportionate part shall be paid or delivered to holders of any voting-trust certificates which are issuable

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in respect to surrendered scrip. After the scrip becomes void the proportionate part of such stock, etc.,  
as would be delivered in respect thereto shall be paid or delivered to the new company. (4) The Chase National Bank has been appointed depositary to hold office until otherwise ordered by the voting trustees and to sign, issue, reissue, and register voting-trust certificates and/or scrip. The certificates for all common stock held by or in the name of the voting trustees shall be deposited with the depositary. (5) The voting trustees in their unrestricted discretion in person or by nominee or nominees shall possess and be entitled to exercise, without limitation the right to vote for such persons for directors of the new company as they may see fit except that (a) without the consent of a majority in interest of the voting-trust certificates at the time outstanding, the common stock deposited with the voting trustees shall not be voted in favor of the sale or lease of all or substantially all of the assets of the new company or of its merger or consolidation with or into another corporation, and (b) such stock shall at all times be voted for the election as directors of the new company of all persons then in office as voting trustees unless such person is unwilling to serve. (c) If the time of payment of any interest installment upon the bonds issued under the new company's first mortgage shall have been postponed and such interest shall continue to remain unpaid, the holders of a majority in principal amount of such bonds, not less than 90 days before any meeting of stockholders for the election of directors, may nominate in writing to the voting trustees any person or persons for election as directors, and in such event the deposited stock shall be voted for such number of



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persons so nominated as shall constitute a majority of the directors of the new company. No person shall be elected as director who as a matter of law in the opinion of counsel for the voting trustees is ineligible to act as director of the new company. (6) The agreement shall continue in effect until April 1, 1951, unless the voting trustees by unanimous action shall terminate it prior to that date or a majority of the voting trustees with the concurrent vote or consent in writing of a majority in interest of the voting-trust certificates then outstanding shall extend it for a further term or terms not exceeding 5 years in the aggregate. Notice of termination or extension of the trust shall be given by publication once in each 2 successive weeks in a newspaper of general circulation in New York City and another in Norfolk, Va. Upon termination of the trust, the holders of trust certificates and scrip shall be entitled to receive common stock, held by or for the voting trustees upon surrender of voting-trust certificates in an amount equal thereto, and the payment if required of a sum sufficient to cover taxes or other Governmental charge or other expense in connection with the delivery. Any certificates not exchanged at the expiration of 5 years from the termination of the trust shall be sold and the proceeds held by the new company for the benefit of the holder or holders of such certificates in full satisfaction of all claims in connection therewith.

(7) Each voting trustee shall receive compensation at the rate of \$1,000 per annum. Any vacancy occurring among the voting trustees shall be filled by them if there be three remaining; if less than three then by the Virginia court, provided, however, that as a successor to Sam H. Husbands, so long as the United

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421 States of America or any agency thereof shall own voting-trust certificates for 25,000 shares of common stock or more, the voting trustees shall elect such person as may be nominated in writing within 20 days after such vacancy shall have occurred by the Reconstruction Finance Corporation.

Voting trustees shall be liable only for their individual malfeasance.

422 As heretofore stated, the primary purposes of the voting trust are perpetuation of the management and protection of the bondholders. Among the more important railroad competitors in the territory served by the new company are the Atlantic Coast Line and the Southern Railway systems, neither of which has been in receivership or bankruptcy during the past 20 years, whereas the Seaboard Air Line Railway Company has been in the hands of receivers for the past 15 1/2 years and unable to reorganize until it received the benefit of the greatly increased earnings resulting from the recent war. We are not persuaded that these facts furnish unqualified support for continuing the management. Furthermore, as the property is to be taken over by the bondholders of the old company who will receive stock, bonds and cash of the new company for their former holdings, it is somewhat difficult for us to perceive the necessity for the bondholders to be protected against themselves as stockholders. However, by this device the bondholders could sell their voting-trust certificates and scrip, secure in the fact that control of the new company for a time at least would be vested in the voting trustees and the property operated for their express protection.

424 *Control of the new company and indirect control of other railroad properties.*—By the terms of the vot-

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ing-trust agreement, article tenth, the voting trustees in their *unrestricted discretion* shall possess, and shall be entitled to the right to vote the common stock held by them, for every purpose including specifically, without limitation, the right to vote for such persons as directors of the new company as they in their uncontrolled discretion may determine, subject only to the restriction that they may not without the consent of a majority in interest of the holders of voting-trust certificates vote for the sale or lease of all or substantially all assets of the new company or consolidation or merger of the new company with or into any other corporation. The voting trustees may not be removed from office by the action of all or any portion of the holders of voting-trust certificates. Furthermore, the voting trustees cannot be removed during the life of the trust except for malfeasance and they have the power so long as at least three hold office to appoint their successors.

It would be difficult indeed to vest a more complete control and unrestricted discretion in the exercise of such control of the various railroads constituting the Seaboard Air Line Railroad system, with the single exception of the right to alienate the property; than is vested in the voting trustees during the life of the trust.

We are of the opinion that the voting trustees will have such control of railroads and the Baltimore Steam Packet Company, and will have the right to exercise such indirect control of other railroads, all as referred to above, as is contemplated by section

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429 5(2), (3), and (4) of the Interstate Commerce Act<sup>1</sup> and that under section 5(2) (b), we have jurisdiction to prescribe such conditions and such modifications of the voting agreement as we find just and reasonable.

430 Although we are aware of the objectionable features of the voting-trust agreement herein set forth, we are of the opinion that it is desirable to have a stable unchanged policy and management of the new company during the early years of its existence to carry out effectively and efficiently the terms and purposes of the plan of reorganization. Accordingly, we will approve the acquisition of control effected by the voting-trust agreement, with Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Hsubands, and Legh R. Powell, Jr., as voting trustees thereunder, upon condition however that the voting trust shall not continue in effect after April 1, 1951, except upon our authorization herein, and that no other voting trust shall be created to control the common stock of the new company unless and until so authorized by us in an appropriate proceeding held for that purpose.

431 We deem it unnecessary to subject the voting trustees to the provisions of sections 20, 20a, or 313 of the act.

LIMITATIONS AND PROHIBITIONS OF  
STATE LAWS

Of the railroad to be acquired by the new company, 736 miles are located in the State of South Carolina.

<sup>1</sup> For a discussion of control as used in section 5(2), (3), and (4) of the Interstate Commerce Act see *Refiners Transport & Terminal Corporation Purchase—Marshall*, 39 M.C.C. 271, and by the Supreme Court of the United States in *U. S. v. Marshall Transport Co.*, 322 U. S., 31.

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This includes 136 miles of the main line extending from Monroe, N. C., to Atlanta, Ga., 205 miles of the main north and south line of the system between Hamlet, N. C., via Columbia, S. C., to Savannah, Ga., and approximately 370 miles of main-line mileage comprising substantially all of what is known as the "East Carolina Lines". In addition to the railroad mileage there are over 600 separate tracts of miscellaneous real properties located in South Carolina which are appurtenant to, or are used or useful in connection with the operation of, the railroad properties. The State of South Carolina has in its constitution a prohibition against the ownership and operation of railroads within the State by corporations of other states.\*

There are provisions in the statutes of the State similar to the constitutional prohibitions.

To comply with the provisions of the constitution and statutes of South Carolina, it would be necessary

\* Section 8 of Article 9 of the Constitution of South Carolina (1895) reads as follows:

"Section 8. *No foreign corporation can build or operate a railroad in this State—no general or special law for foreign corporation, except on conditions.* The General Assembly shall not grant to any foreign corporation or association a license to build, operate or lease any railroad in this State; but in all cases where a railroad is to be built or operated, or is now being operated, in this State, and the same shall be partly in this State and partly in another State, or in other States, the owners or projectors thereof shall first become incorporated under the laws of this State; nor shall any foreign corporation or association lease or operate any railroad in this State, or purchase the same or any interest therein.

"Consolidation of any railroad lines and corporations in this State with others shall be allowed only where the consolidated company shall become a domestic corporation of this State. No general or special law shall ever be passed for the benefit of any foreign corporation operating a railroad under any existing license of this State or under any existing lease, and no grant of any right or privilege and no exemption from any burden shall be made to any such foreign corporation, except upon condition that the owners or stockholders thereof shall first organize a corporation in this State under the laws thereof, and shall thereafter operate and manage the same and the business thereof under said domestic charter."



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for the new company either (a) to form a separate subsidiary corporation to own and operate the system  
437 railroad in South Carolina, or (b) to form a separate South Carolina corporation and then consolidate that corporation with itself so that the resultant corporation would be a corporation both of South Carolina and Virginia. Either course would result in substantial expense. If a separate corporation were organized to own the South Carolina properties, those properties could not be leased to the Virginia corporation, but would have to be operated separately, requiring the maintenance of a separate corporate organization and  
438 of separate executive, operating and accounting organizations. This would involve an initial outlay estimated at \$18,300 and continuing expenses estimated at approximately \$305,000 a year. Creation of a separate South Carolina corporation and a subsequent consolidation would require an initial outlay estimated at \$71,800 and continuing expenses estimated at approximately \$1,000 a year, and would result in substantial difficulties for the new company both in effecting the reorganization of the properties and in the future  
439 conduct of the new company's affairs. For example, the constitution of South Carolina requires the general assembly to provide by law for the cumulative voting of stock in the election of directors, and the State statutes make such cumulative voting mandatory for all corporations of the State, including railroad corporations. The plan of reorganization does not contemplate, or permit, that the new company's stock shall have such cumulative voting rights, and to give the stock such rights at this time would involve a  
440 modification of the plan, which the new company is advised would require resubmission of the plan to the courts.

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It is argued that the restrictions imposed upon foreign railroad corporations by the constitution and statutes of South Carolina constitute a burden on interstate commerce which we have full power under the provisions of section 5 of the act to override. *Texas & F. S. Ry. Control*, 193 I. C. C. 521; *Kansas City Southern Ry. Co. Merger*, 254 I. C. C. 529; *Texas v. United States*, 292 U. S. 522. The new company is advised that if we authorized it to acquire and operate the properties of the system located in South Carolina it will have the power to do so irrespective of those restrictions. It suggests, however, that to avoid complications and trouble for the new company our report in these proceedings should contain specific reference to these restrictive provisions so as to show on its face that our order is intended to override them.

The total operating revenues assigned in 1945 to the 736 miles of system railroad located in South Carolina amounted to over \$25,000,000. Such revenues for 1940 were \$7,700,000. For a normal year it is anticipated that they will be less than in 1945. The chief finance and accounting officer for the receivers says that the estimated expenses of maintaining a separate corporation to own and operate the railroad in South Carolina have been stated on a conservative basis and might not be materially reduced even though total operating revenues of the railroad in South Carolina were to decline to \$7,000,000 or \$8,000,000 a year.

It would clearly be an unnecessary and undue burden on interstate commerce for the new company to be subjected to continuing expenses of over \$300,000 a year to maintain a separate corporation to own and operate the railroad in South Carolina. It is not so clear, however, that the cost of organizing a corpora-

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tion under the laws of South Carolina to acquire the properties in that State and thereafter consolidate the South Carolina corporation with the Virginia corporation, viz, \$71,800, or the cost of maintaining the consolidated corporation as a South Carolina corporation, viz, \$1,000 a year, would be unduly burdensome. Organization of a South Carolina corporation, and consolidation with the Virginia corporation, however, would cause substantial delay and needless expense. In *Texas v. United States*, *supra*, the Supreme Court, in discussing the purpose of the provisions of section 5 of the act, said (p. 530):

These broadening provisions of the Emergency Railroad Transportation Act, 1933, confirm and carry forward the purpose which led to the enactment of Transportation Act, 1920, \* \* \*. We found that Transportation Act, 1920, introduced into the federal legislation a new railroad policy, seeking to insure an adequate transportation service. \* \* \*. It is a primary aim of that policy to secure the avoidance of waste. \* \* \*. The authority given to the Commission to authorize consolidations, purchases, leases, operating contracts, and acquisition of control, was given in aid of that policy. \* \* \*. The criterion to be applied by the Commission in the exercise of its authority to approve such transactions—a criterion reaffirmed by the amendments of Emergency Railroad Transportation Act, 1933,—is that of the controlling public interest. \* \* \*

The provisions of section 5 were further amended by the Transportation Act of 1940 which contains a declaration of the national transportation policy. The provisions as to relief from restraints, limitations and

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prohibitions of State law which would stand in the way of the execution of the policy of Congress were clarified and strengthened. In administering the provisions of section 5 and other provisions of the act we must do so with a view to carrying out the declared policy of Congress, including the promotion of economical and efficient service and the fostering of sound economic conditions in transportation. Corporate simplification wherever possible is in accord with this policy. Furthermore, a termination of a longstanding receivership of railroad properties is always a matter of substantial public interest. The delays that would result and the needless expense that would be incurred should the new company undertake to comply with the constitution and statutes of South Carolina requiring the creation of a separate corporation to acquire, or to acquire and operate, the railroad which the new company proposes to acquire and operate in that State would not accord with the national transportation policy and would not be consistent with the public interest.

The provisions of section 5(11) will relieve the new company of the restraints, limitations and prohibitions of State law only insofar as may be necessary to enable it to carry into effect the transactions approved and provided for, in accordance with the terms and conditions which we impose, and to hold, maintain, and operate any properties, and exercise any control or franchises acquired through such transactions.

## EXPENSES OF THE REORGANIZATION

Several statements were filed giving estimates of expenses incurred, amounts paid thereon, and amounts remaining to be paid. An estimate of expenses to be

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paid by the new company upon consummation of the reorganization is given as \$194,955, and consist of State fees for increase of authorized common and preferred stock, fees for qualifying to do business in various States, recording fees and State taxes on deeds and mortgages, trustees' fees, registration of temporary general-mortgage bonds, printing temporary securities, issue of voting-trust certificates and scrip, signing temporary bonds, fees of scrip agent, listing new securities on stock exchange, printing and miscellaneous expenses. The expenses of the reorganization committee were given as \$552,891.27, of which \$113,291.84 were paid as of February 28, 1946, \$374,809.43 were due for services rendered, and \$64,790 were the estimated cost of work to be done. Consideration of these expenses will be had in the proceeding before us under section 77(p) of the Bankruptcy Act, as amended. See *Seaboard Air Line Ry. Co. Receivership*, 257 I. C. C. 837. A statement was filed giving the amount of the allowances requested for the receivers, their counsel in Norfolk and New York, and their chief finance and accounting officer, as \$1,443,170. This amount was divided as follows: Receiver Powell, \$238,080, Receiver Anderson \$264,000, Norfolk counsel for receivers, \$120,000, New York counsel for receivers, \$720,590, chief finance and accounting officer, \$100,500. The request was filed asking for allowances of additional compensation in such amount as the court might think proper, but the court requested that the amounts be stated. In December 1945, the court approved an allowance of \$250,000 on account of this application, reserving for future consideration the division of the amount, and the amount of additional allowance, if any, which should be made. A statement



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was also submitted, giving a summary of the allowance petitions filed pursuant to an order of the Virginia court dated August 10, 1945, requiring parties deeming themselves entitled to allowances in the receivership proceedings, but excluding receivers and their counsel, to file petitions before October 1, 1945. The allowances requested aggregate \$3,007,624.17, and include \$2,815,535.25 for compensation and \$192,088.92 for expenses. These requests include compensation and expenses for members of various committees and their counsel, trustees of mortgages and their counsel, insurance companies and their counsel, depositaries' fees, fees for research work, etc. The Virginia court by order dated February 18, 1946, appointed William L. Marbury, Jr., of Baltimore, as special master to hear the allowance petitions, directed him to hold hearings thereon, and to file his report not later than July 1, 1946. On April 11, 1946, the Virginia court appointed H. Vernon Eney of Baltimore as counsel to represent the receivership estate and the creditors in connection with the allowance petitions.

The transactions hereinabove set forth will not result in any increase in the fixed charges of the railroad system to be acquired. No other railroad has sought to be included in the proposal. Adequate and efficient transportation service to the public will be promoted.

*Employees.*—Inasmuch as the transaction applies only to the acquisition of the properties of the old company by the new company without change in operation, it does not appear that any railroad employee could be adversely affected. However, pursuant to our findings in *Chicago & North Western Railway Company et al. Merger*, 261 I. C. C. —, decided May 29,

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1946, our authorization herein is granted subject to the conditions that

during the period of 4 years from the effective date of our order herein such transaction will not result in employees of the carrier or carriers by railroad affected by such order being in a worse position with respect to their employment, except that the protection afforded to any employee pursuant to this sentence shall not be required to continue for a longer period, following the effective date of such order, than the period during which such employee was in the employ of such carrier or carriers prior to the effective date of such order.

Upon consideration of the record in these proceedings, we find that subject to the above-stated conditions with respect to the protection of employees, the purchase by the Seaboard Air Line Railroad Company of the railroad properties and other assets of the Seaboard Air Line Railway Company or its receivers, or both, and operation thereof in the States of Virginia, North Carolina, South Carolina, Georgia, Florida, and Alabama, including those operated under contract, lease, or agreement, and acquisition of control, or joint control, by the Seaboard Air Line Railroad Company through ownership of capital stock of certain other railroad companies and the Baltimore Steam Packet Company, described in the report aforesaid, are transactions within the scope of section 5(2) of the Interstate Commerce Act, as amended, that the terms and conditions proposed are just and reasonable, and that the transactions will be consistent with the public interest.

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We further find that the control of the various carriers, to the extent herein stated, by Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Husbands, and Legh R. Powell, Jr., voting trustees, is a transaction within the scope of section 5(2) of the Interstate Commerce Act, as amended, and that, subject to the conditions prescribed in this report, the terms and conditions proposed are just and reasonable, and the transaction will be consistent with the public interest:

\* In authorizing the issue of the new securities and the assumption of obligations as proposed, we are concerned with not only that the securities will be fully supported by tangible property, that the earnings will be as nearly as can be determined sufficient to service the securities and that the terms of the securities are in conformity with modern and sound financial practices, but we are also vitally concerned with the total amount of cash to be received by the new company in connection with the purchase of the properties including its working capital, to the end that the stability of the new company may be reasonably assured at its inception. As has been stated above claims for allowances and expenses, excluding claims of receivers and their counsel, have been filed in the total amount of \$3,007,624.17, while the claims of receivers, their counsel, and chief accounting officer amount to \$1,443,170, making a total of \$4,450,794.17. The receivers, their counsel, and chief accounting officer were paid to December 31, 1945, as compensation a total of \$1,863,205. From the facts known to us, we regard claims for any such amount as \$4,450,794.17 excessive and unjustified. As has also been indicated, the Virginia court has assumed jurisdiction over the approval of these claims

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and has appointed a special master to report thereon. We must assume that the court when approving and authorizing the payment of these claims will consider fully the merits of each of them and will limit payments to such amounts as it finds just and reasonable so that a major portion of the \$10,000,000 fund set aside for expenses may be paid to the new company to be used for its corporate purposes.

We find that (1) the proposed issue by the Seaboard Air Line Railroad Company of not exceeding \$32,500,000 of first-mortgage 50-year 4-percent bonds, series A, \$52,500,000 of income-mortgage 70-year 4½-percent bonds, series A, \$15,000,000 of preferred stock 5-percent, series A, of the par value of \$100 a share, and 849,997 shares of common stock without par value, but with a stated value of \$100 a share, and such additional shares of common stock not exceeding 675,000 shares as may be necessary for conversion purposes; and (2) that the proposed assumption by the Seaboard Air Line Railroad Company of obligations and liabilities of (a) Legh R. Powell, Jr., and Henry W. Anderson, as receivers of the Seaboard Air Line Railway Company in respect of not exceeding \$13,588,000 of receivers' equipment-trust certificates, consisting of \$250,000 of series FF, \$283,000 of series GG, \$192,000 of series HH, \$1,270,000 of series JJ, \$1,530,000 of series KK, \$1,482,000 of series LL, \$2,346,000 of series MM, \$2,552,000 of series NN, and \$3,683,000 of series OO, (b) of the Seaboard Air Line Railway Company, or its receivers, or both, as guarantors or lessees, or both, in respect of the following securities: \$323,333.33 of first-mortgage 4-percent bonds of the Birmingham Terminal Company, \$100,000 of first and general mortgage 5-percent bonds, \$2,400,000 of refunding and ex-

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tension mortgage 5-percent bonds, series A, \$1,100,000 of refunding and extension mortgage 6-percent bonds, series B, and \$400,000 of refunding and extension mortgage 4½-percent bonds, series C; all of the Jacksonville Terminal Company, \$280,000 of 1½-percent serial promissory notes of the Norfolk & Portsmouth Belt Line Railroad Company, and \$200,000 of first-mortgage 4-percent bonds of the Tampa Union Station Company; and (c) of the Seaboard Air Line Railway Company, or the receivers, or both, as lessee by lease or operating agreement, in respect of the following securities insofar as rental payments are involved: Athens Terminal Company first-mortgage 5-percent bonds, \$200,000; Birmingham Terminal Company, 1500 shares of capital stock of the par value of \$100 each; Durham Union Station Company, 333 shares of capital stock of the par value of \$100 each, and \$60,000 of first-mortgage 5-percent bonds; North Charleston Terminal Company, 1050 shares of the capital stock of the par value of \$100 each; Savannah Union Station Company, \$600,000 of first-mortgage 4-percent bonds; Tampa Union Station Company, 300 shares of capital stock of the par value of \$100 each; Atlanta Terminal Company, \$1,600,000 of first-mortgage 4-percent bonds; and 1500 shares of capital stock of the par value of \$100 each; all as aforesaid, (A) are for lawful objects within its corporate purposes, and compatible with the public interest, which are necessary and appropriate for and consistent with the proper performance by it of service to the public as a common carrier, and which will not impair its ability to perform that service, and (B) are reasonably necessary and appropriate for such purposes.

An appropriate order will be entered.



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## APPENDIX A

## REORGANIZATION

## SEABOARD AIR LINE RAILWAY COMPANY

*Cash to be distributed to security holders, pursuant to  
Order No. R. 22 of the Virginia Court, in  
addition to Securities and cash stated  
in Appendix E to Report.*

<i>Title of issue.</i>	<i>Total distribution</i>	<i>Distribution per \$1,000 bond</i>
CC RR Co, 1st Cons 4' '49 .....	\$ 240,000	\$ 80.00
478 FC&P RR Co, 1st Cons 5's '43 .....	437,200	100.00
FWS Ry, 1st 5's '34 .....	65,700	87.02
G&A Ry, 1st Cons 5' '45 .....	312,300	51.32
GC&N Ry Co, 1st 6's '34 .....	481,500	89.83
SAL Ry A-B, 1st 4's '33 .....	475,200	80.41
The S&R RR Co., 1st 5's '31 .....	197,100	78.84
The SB RR Co. 1st (sou div.) 5's '41...	130,500	64.19
SAL Ry. 1st 4's '50 .....	1,098,900	86.07
SAL Ref. 4's '59 .....	900,900	46.56
SAL Ry. Co. 1st & Con 6's '45 .....	3,551,400	57.28
SAL Ry. 3 Yr. 5% sec. notes '31 .....	343,800	45.84
479 SAL Ry. Co. sec. 210 6% loan notes to U. S. Govt. ....	972,900	.....
G&A Term Co. 1st 5's '48 .....	44,100	44.10
T&GC RR Co. 1st 5's '53 .....	74,700	63.09
The S-BL Co, Sec. 210 loan Deficiency claim .....	8,100	.....
<b>Total distribution .....</b>	<b>\$9,334,300</b>	<b>\$.....</b>

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## APPENDIX B

SECURITIES SUBJECT TO PLAN AS OF CLOSE OF BUSINESS <sup>481</sup>

MAY 19, 1945

<i>Title of Issue</i>	<i>Principal Amount Outstanding</i>	<i>Principal Amount Subject to Plan</i>	<i>Percentage Subject to Plan</i>
<i>I Unforeclosed Bonds</i>			
Carolina Central Bonds.. \$	3,000,000	\$ 2,646,000	88%
F. C. & P. Bonds .....	4,372,000	4,063,000	93%
Seaboard Notes .....	7,500,000*	6,722,000*	89%
<i>II Foreclosed Bonds</i>			
Florida West Shore Bonds	755,000	697,000	92%
Georgia & Alabama Bonds	6,085,000	5,212,000	85%
G. C. & N. Bonds .....	5,360,000	4,989,000	93%
Atlanta-Birmingham B'ds	5,910,000	5,416,000	91%
Seaboard & Roanoke B'ds	2,500,000	2,447,000	97%
South Bound Bonds .....	2,033,000	1,750,000	86%
Seaboard First 4s .....	12,768,000	10,737,000	84%
Seaboard Refundings ...	19,350,000	15,750,000	81%
Seaboard Consolidateds..	78,974,000†	67,164,500†	85%
<i>III. Leased Line Bonds</i>			
G. & A. Terminal .....	1,000,000	952,000	95%
Tampa & Gulf Coast .....	1,184,000	199,000	16%
Total .....	\$150,791,000	\$128,744,500	85%

\* Disregarding partial payments made on account of principal.

† Includes bonds pledged with U. S. Treasury, but excludes bonds pledged to secure Seaboard Notes.

## APPENDIX C

### DISTRIBUTIVE SHARES OF UNDEPOSITED BONDS AND MARKET VALUES OF NEW SECURITIES

Issue	Outstanding	Subject to Plan	Undeposited Bonds	Distributive Share Undeposited*		Market Value of New Securities†	
				Per \$1000	Total	Per \$1000	Total
Seaboard & Roanoke 1st 5s, 1931	\$ 2,500,000	\$ 2,484,000	\$ 6,000	\$ 555.90	\$ 3,335.40	\$ 1,051.42	\$ 6,308.52
Ga. Carolina & Northern 1st 6's							
1934 .....	5,360,000	5,218,000	142,000	603.50	85,697.00	1,067.61	151,600.62
Southbound R.R. 1st 5's, 1941 ..	2,033,000	2,000,000	33,000	405.30	18,374.90	794.37	26,214.21
Ga. & Alabama 1st 5's, 1945, ....	6,085,000	5,930,000	155,000	287.30	44,531.50	579.75	89,861.25
S.A.L. 1st Mtge. 4's, 1950 .....	12,768,000	12,143,000	625,000	469.40	239,375.00	1,190.91	744,318.75
Atlanta-Birmingham 1st 4's, 1933	5,910,000	5,846,000	64,000	530.70	33,964.80	1,028.54	65,826.56
Florida West Shore 1st 5's, 1934	755,000	744,000	11,000	578.30	6,361.30	1,100.56	12,106.16
S.A.L. Refunding 4's, 1959 .....	19,350,000	18,237,000	1,113,000	249.10	277,248.30	558.05	621,109.65
S.A.L. 1st & Consol. 6's, 1945 ..	61,997,500	58,622,400	3,375,100	354.20	1,195,460.42	737.03	2,487,569.95
Carolina, Central 1st Cons. 4's,							
1949 .....	3,000,000	2,953,000	47,000	1,000.00	47,000.00	974.50	45,801.50
Fla. Cent. & Penin. 1st Cons. 5's,							
1943 .....	4,372,000	4,222,000	150,000	1,000.00	150,000.00	1,000.00	150,000.00
S.A.L. 3-Yr. 5% Notes, 1931 ....	7,500,000	7,318,000	182,000	283.40	51,578.80	589.53	107,294.46
					<u>\$2,194,927.42</u>		<u>\$4,508,011.63</u>

\* Exclusive of any amounts payable out of earnings subsequent to May 31, 1945. It is estimated that the aggregate amounts so payable on deposited and undeposited bonds (including interest to date of final payment on undeposited F.C.&P. and Carolina Central Bonds) will not exceed the \$9,207,400 to be distributed therefrom pursuant to Order No. R-22 of the Virginia Court.

† First Mortgage Bonds w.i. at 100  
Income Mortgage Bonds w.i. at 85  
Preferred Stock w.i. at 71  
Common stock w.i. at 36

## In the Original Jurisdiction

## APPENDIX D

## TENTATIVE

*Constructed Balance Sheet as of December 31, 1945,  
Giving Effect to the Acquisition by the New  
Company of all Properties to be Acquired  
Under the Plan of Reorganization of Sea-  
board Air Line Railway Company*

## ASSETS

## Investments

(701)	Road and equipment property .....	\$352,248,835 (1)	
(702)	Improvements on leased property .....	451,504	490
(702½ A)	Acquisition adjustment (3) .....	140,705,666 Cr.	
(702½ B)	Donations and grants .....	3,728,619 Cr.	
	Investment in transportation property	208,266,054	
(702½ C)	Accrued depreciation—Road .....	2,351,798 Cr.	
(702½ D)	Accrued depreciation—Equipment .....	39,804,120 Cr.	
(702½ E)	Accrued amortization of defense projects —Road .....	6,933,765 Cr.	
(702½ F)	Accrued amortization of defense projects —Equipment .....	16,778,085 Cr.	
	Investment in transportation property less recorded depreciation and am- ortization .....	142,398,286	491
(704)	Capital and other reserve funds (4) ....	19,946,204	
(704½)	Maintenance funds .....	7,073,160	
(705)	Miscellaneous physical property .....	4,157,596	
(706)	Investments in affiliated companies (5):		
	(A) Stocks .....	2,480,175	
	(B) Bonds .....	550,595	
	(C) Other secured obligations .....	509,450	
	(D) Unsecured notes .....	2,777,155	
	(E) Investment advances .....	906,211	
(707)	Other investments (5):		
	(A) Stocks .....	1,504	492
	(C) Other secured obligations .....	7,462	
	(D) Unsecured notes .....	21,787	

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(707½) Reserve for adjustment of investment  
in securities (5) ..... 317,669Cr.

Total investments ..... 180,511,916

*Current Assets*

(708) Cash (2) ..... 8,644,997(6)

(709) Temporary cash investments ..... 14,007,587

(711) Special deposits ..... 194,014(6)

(714) Net balance receivable from agents and  
conductors ..... 1,446,817

(715) Miscellaneous accounts receivable ..... 8,476,389

(716) Material and supplies ..... 10,803,587

(717) Interest and dividends receivable ..... 326,743

(713) Accrued accounts receivable ..... 4,152,543

(719) Other current assets ..... 3,660,133

Total current assets ..... 51,712,810

*Deferred Assets*

(720) Working fund advances ..... 43,510

(722) Other deferred assets ..... 109,306(6)

Total deferred assets ..... 152,816

*Unadjusted Debits*

(723) Prepayments ..... 196,288

(727) Other unadjusted debits ..... 935,867

Total unadjusted debits ..... 1,132,155

GRAND TOTAL ..... \$233,509,697

## TENTATIVE

*Constructed Balance Sheet as of December 31, 1945,  
Giving Effect to the Acquisition by the New  
Company of all Properties to be Acquired  
Under the Plan of Reorganization of Sea-  
board Air Line Railway Company*

## LIABILITIES

*Stock*

(751) Capital stock ..... \$100,000,000(7)

*Long-Term Debt*

(755) Funded debt unmatured ..... 85,000,000

(756½) Equipment obligations ..... 13,987,000

Total long term debt ..... 98,987,000



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### Current Liabilities

(759)	Traffic and car-service balances—Cr.....	2,745,052	497
(760)	Audited accounts and wages payable ...	5,781,526	
(761)	Miscellaneous accounts payable .....	1,442,212	
(762)	Interest matured unpaid .....	140,180	
(764)	Unmatured interest accrued .....	93,652	
(766)	Accrued accounts payable .....	4,708,951	
(767)	Taxes accrued .....	7,777,900	
(768)	Other current liabilities .....	439,629	

Total current liabilities ..... 23,129,102

### Deferred Liabilities

(770)	Other deferred liabilities .....	196,832	498
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Total deferred liabilities ..... 196,832

### Unadjusted Credits

(774)	Maintenance reserves .....	7,073,160	
(778)	Other unadjusted credits .....	4,106,364	
(779)	Accrued depreciation—Leased property.	17,239	

Total unadjusted credits ..... 11,196,763

### Surplus

(784)	Unearned surplus .....	None	499
	1. Paid in Surplus—.....		
	2. Other unearned surplus—.....		
(785)	Earned surplus—Appropriated .....	None	
(786)	Earned surplus—Unappropriated .....	None	

Total surplus ..... None

GRAND TOTAL ..... \$233,509,697

(1) This account is the aggregate of the 701 accounts of the following companies plus the amount carried in Seaboard's

## Seaboard Air Line R. R. Co. v. Daniel et al.

Account 702 "Improvements on Leased Property," which is referable to such companies, viz:

Seaboard Air Line Railway Company  
 Brooksville and Inverness Railway  
 Charlotte Harbor & Northern Railway Company  
 Prince George and Chesterfield Railway  
 Seaboard-All Florida Properties:  
     Seaboard-All Florida Railway  
     Florida Western & Northern Railway Company  
     East and West Coast Railway  
 Georgia and Alabama Terminal Company  
 Georgia, Florida & Alabama Railroad Company  
 Tampa & Gulf Coast Railroad Company  
 Tampa Northern Railroad Company  
 The Seaboard-Bay Line Company

- (2) This balance sheet excludes the following:

Reserve created by Article XII of the Foreclosure Decree .....	\$10,000,000
Distribution to creditors authorized by Court Order No. R-22 dated December 27, 1945 .....	9,334,300
<b>Total .....</b>	<b>\$19,334,300</b>

- (3) The amount shown against Account 702½A "Acquisition Adjustment" reflects the use of book values carried in Accounts 701 and 702 as mentioned in Note (1) above, and such amount would be different if "original cost or estimated original cost as found by the Bureau of Valuation" had been used as contemplated in the text of Account 702½A. As the original cost or estimated original cost has not been supplied by the Bureau of Valuation, such figures could not be used in the preparation of this balance sheet. Use of the Bureau's figures would have the effect of reducing the debit of \$352,248,835 shown against Account 701 and the credit of \$140,705,666 shown against Account 702½A.
- (4) This account includes (1) reserves aggregating \$16,000,932 (consisting of U. S. Government Obligations and certain interest accretions) created pursuant to Court Orders—\$15,117,932 (\$15,000,000 principal and \$117,932 interest) pursuant to Court Orders Nos. 362 and 394 and \$883,000 pursuant to Court Order No. 418; (2) cash amounting to \$3,810,000 on deposit with Trustee of Equipment Trust Series "00" and (3) other deposits with Trustees, etc., \$135,272, an aggregate of \$19,946,204.

In the Original Jurisdiction

(5) The amounts shown for Accounts 706 and 707 are the book figures, but a reserve of \$317,660 to provide for reductions in the value of certain securities—equal to the difference between the book values and the estimated appraised values of such securities as shown by statements filed at hearings before the I.C.C. in April 1944—has been provided in Account 707½. Securities acquired subsequent are stated at cost.

(6) In the preparation of this balance sheet, deduction has been made from cash and other available assets (Accounts 708, 711 and 722) of funds aggregating \$1,798,388 necessary to consummate the following cash transactions pursuant to existing Court Orders and as contemplated under the Plan of Reorganization, viz:

Redemption of \$21,100 of Receivers' Certificates. \$ 21,377

Purchase of \$10,000 of outstanding Equipment Obligations and Old Receivers' Certificates.... 12,982

Purchase of \$44,000 of outstanding Raleigh bonds 51,517

Purchase of outstanding leased life bonds as follows:

\$7,630,500 Seaboard-All Florida First 6s..... 1,577,224

176,000 Georgia, Florida & Alabama First and Refunding 6s ..... 132,000

3,000 Tampa Northern First 5s ..... 3,288

(7) 150,000 shares of preferred stock, par value \$100 per share, and 850,000 shares of common stock, without par value, at \$100 per share.

The New Company will be guarantor, by assumption, of the following securities and obligations:

Birmingham Terminal Company First Mortgage 4% Bonds, due 1957 ..... 328,333.33\*

\* Represents one-sixth of total issue of \$1,940,000 to be guarantee severally by Seaboard Air Line Railroad Company and five other railroads.

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 Seaboard Air Line R. R. Co. v. Daniel et al.
 

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## Jacksonville Terminal Company:

First & General Mortgage 5% Bonds, due  
1967 ..... 100,000.00†

Refunding & Extension Mortgage Bonds,  
due 1967:

Series A, 5% ..... 2,400,000.00†

Series B, 6% ..... 1,100,000.00†

Series C, 4½% ..... 400,000.00†

Norfolk and Portsmouth Belt Line Railroad  
Company 1¼% Serial Promissory Notes,  
due \$70,000 annually to 1949 ..... 280,000.00†

Tampa Union Station Company First Mort-  
gage 4% Bonds, due 1958 ..... 200,000.00†

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† To be guaranteed jointly and severally by Seaboard Air Line  
Railroad Company and other railroads.



# **APPENDIX E** **ALLOCATION OF SECURITIES OF THE NEW COMPANY**

	Principal Amount in Hands of Public 5-31-46 (1)	Total Principal and Interest of Claims in Hands of Public Adjusted to March 31, 1946 (2)	Cash Payment of Interest to be made with distribu- tion of New Securities pur- suant to Court Order R-22 dated 12-27-45 (3)	First Mortgage Bonds (4)	Income Mortgage Bonds (5)	Preferred Stock (6)	Common Stock (Taken at \$100 per Share) (7)	Total of Cols. (3) to (7) Incl. (8)	Deficiency— Col. (2) Minus Col. (8) (9)
Total Allocation									
Obligations of Receivers:									
Receivers' Equipment Trust Certificates..	\$ 13,588,000	\$ 13,588,000.00	\$ .....	(To be assumed by New Company) (The \$13,588,000 excludes April 1, 1946 Maturities)					
Seaboard Underlying Divisional Mortgage Bonds:									
Carolina Central RR. Co., 1st Cons. 4's '49	3,000,000	3,269,370.00	240,000	\$ 2,490,000	\$ 510,000	\$ .....	\$ .....	\$ 3,240,000	\$ 29,370.00
Florida Central and Peninsular RR. Co., 1st Cons. 5's '43 .....	4,372,000	4,962,220.00	437,200	4,372,000	.....	.....	.....	4,809,200	153,020.00
Florida West Shore Ry., 1st 5's, '34 .....	755,000	1,439,513.18	65,700	88,907	419,405	284,739	509,324	1,368,075	71,438.18
Georgia and Alabama Ry., 1st Cons. 5's, '45	6,085,000	10,869,343.79	312,300	357,408	1,597,627	656,461	3,739,876	6,663,671	4,205,672.79
Georgia, Carolina and Northern Ry. Co., 1st 6's, '34 .....	5,360,000	11,098,318.10	481,500	1,912,394	2,365,515	847,385	4,815,871	10,422,665	675,653.10
Seaboard Air Line Ry. Atlanta-Birmingham, 1st 4's, '33 .....	5,910,000	11,227,517.35	475,200	1,839,844	2,171,218	868,661	4,935,076	10,289,999	937,518.35
The Seaboard and Roanoke RR. Co., 1st 5's, '31 .....	2,500,000	4,435,922.84	197,100	727,320	1,052,360	592,635	1,627,685	4,197,100	238,822.84
The South Bound RR. Co., 1st (Southern Div.) 5's, '41 .....	2,033,000	4,273,057.41	130,500	162,801	977,348	225,234	1,281,920	2,777,803	1,495,254.41
Guaranty Trust Co. of N. Y.—Trustee under Lease Agreement Between G&A Ry. & Central of Georgia Ry. Co. ....				3,610	16,138	6,631	37,777	64,156	—64,156.00
Total Seaboard Underlying Divisional Mortgage Bonds .....	30,015,000	51,575,262.67	2,339,500	11,954,284	9,109,611	3,481,746	16,947,528	43,832,669	7,742,593.67
Seaboard General Mortgage Bonds:									
Seaboard Air Line Ry., 1st 4's, '50 .....	12,768,000	23,567,085.50	1,098,900	1,746,776	8,931,515	5,877,560	4,705,423	22,360,174	1,206,911.50
Seaboard Air Line Ry., Refunding 4's, '59	19,350,000	40,427,293.67	900,900	2,091,250	5,056,603	653,730	10,958,603	19,661,086	20,766,207.67
Seaboard Air Line Ry., 1st & Cons. 6's, '45	61,997,500	147,513,460.51	3,551,400	12,056,723	20,976,169	3,444,748	37,119,092	77,147,132	70,366,328.51
Total Seaboard Gen. Mortgage B'ds.	94,115,500	211,507,839.68	5,551,200	15,894,749	34,963,287	9,976,038	52,783,118	119,168,392	92,339,447.68
Seaboard Collateral Trust Obligations:									
Seaboard Air Line Ry. Co., 3-Yr. 5% Secured Notes, '31 .....	6,877,575	15,059,460.03†	343,800	1,166,673	2,029,670	333,332	3,591,842	7,465,317	7,594,143.03
Seaboard Air Line Ry. Co., Sec. 210 6% Loan Notes to U. S. Gov't. ....	14,438,827	27,326,139.70†	972,900	3,301,718	5,744,022	943,340	10,165,015	21,126,995	6,199,144.70
Total Collateral Trust Obligations...	21,316,402	42,385,599.73	1,316,700	4,468,391	7,733,692	1,276,672	13,756,857	28,592,312	13,793,287.73



Total Collateral Trust Obligations...	21,316,402	42,385,599.73	1,316,700	4,468,391	7,733,692	1,276,672	13,756,857	28,592,312	13,793,287.73
Total Seaboard Gen'l Mtgs., Incl. Col- lateral Trust Obligations .....	115,431,902	253,893,439.41	6,867,900	20,363,140	42,736,979	11,252,710	66,539,975	147,760,704	106,132,735.41
Debt of Subsidiary Railroad and Terminal Companies, the properties of which are operated by Seaboard Receivers as part of the System:									
Georgia and Alabama Terminal Co., 1st 5's, '48, .....	1,000,000	2,007,500.00	44,100	50,084	198,762	99,482	566,317	958,745	1,048,755.00
Tampa & Gulf Coast RR. Co., 1st 5's, '53.	1,184,000	2,445,700.00	74,700	87,763	412,798	155,086	883,887	1,614,234	831,466.00
Total Debt of Subsidiary Railroad and Terminal Cos., etc. ....	2,184,000	4,453,200.00	118,800	137,847	611,560	254,568	1,450,204	2,572,979	1,880,221.00
The Seaboard-Bay Line Co., Sec. 210 Loan-Deficiency Claim.....	347,550	395,375.92	8,100	44,729	41,850	10,976	62,293	167,948	227,427.92
Total .....	\$161,566,452	\$ 323,905,278.00	\$ 9,334,300	\$32,500,000	\$52,500,000	\$15,000,000	\$85,000,000	\$ 194,334,300	\$ 115,982,978.00

\* This exhibit is a revision of Schedule B of Seaboard Air Line Railway Company Plan of Reorganization (as modified September, 1944) and has been prepared to supply information called for in sub-paragraph 10 of Director Sweet's letter dated April 2, 1945 in Finance Docket 14500 and 14501. This exhibit does not include debt in respect of which securities of the New Company will not be delivered but for which cash provisions will be made as referred to below, viz:

- Raleigh and Augusta Air Line RR. Co., 1st 5's, '31 in the principal amount of \$12,000, and Raleigh and Gaston R.R. Co. 1st 5's '47 in the principal amount of \$15,000, are outstanding as of March 31, 1946. The aggregate principal amount plus unpaid interest to March 31, 1946 is \$15,750 and \$19,067.50, respectively, an aggregate of \$35,487.50. Court order 327-E dated January 28, 1946 authorized the Receivers to purchase these bonds at such price as they may approve not in excess of the principal and accrued interest due on said bonds to the date of purchase. At or prior to consummation of the reorganization it is proposed to deposit cash with the Trustees of these issues and have the two mortgages satisfied.
  - Court Order R-1 dated February 8, 1944 authorized the Reorganization Committee to purchase G.F.&A. bonds at a flat price of \$750 for each \$1,000 bond. As of March 31, 1946 the Committee had purchased \$1,575,000 principal amount of these bonds at an aggregate cost of \$1,181,350, leaving \$175,000 principal amount in the hands of the public as of that date. Cash aggregating \$181,350 will be required to purchase the remaining \$175,000 of this issue at the above stated price of \$750 per bond.
  - Court Order R-7 dated November 10, 1944 authorized the Seaboard Receivers to purchase T.N. bonds at \$1,000 per bond, plus unpaid accrued interest thereon to December 1, 1944 amounting to \$95.88. As of March 31, 1946 the Receivers had purchased \$1,355,000 principal amount of these bonds at an aggregate cost of \$1,575,266.65, leaving \$3,000 in the hands of the public as of that date. Cash aggregating \$3,267.49 will be required to purchase the remaining bonds at the above stated price of \$1,095.88 per bond.
  - There is a relatively small amount of unpaid interest authorized to be paid by the Court which has not been actually paid as of March 31, 1946.
- The Seaboard-All Florida Lines, 1st 6's, Ser. A and B, '55, Bonds are excluded from this statement as the properties of the so-called Seaboard-All Florida Lines (Seaboard-All Florida Railway, Florida Western & Northern Railroad Company and East and West Coast Railway) have been purchased by the New Company as authorized by I.C.C.
- † The interest embraced in column (2) includes interest accrued for the period 1-1-45 to 3-31-46 aggregating \$974,184.34 on \$6,000,000 principal amount of SAL Ry. Co. First and Consolidated Mortgage Bonds pledged as collateral under this issue. Prior to 1945 interest was accrued on the primary obligation and not on the collateral.
- ‡ The interest embraced in column (2) includes interest accrued for the period 1-1-45 to 3-31-46 aggregating \$2,756,281.65 on \$16,976,500 principal amount of SAL Ry. Co. First and Consolidated Mortgage Bonds pledged as collateral under this issue. Prior to 1945 interest was accrued on the primary obligation and not on the collateral.
- April 20, 1946.

# ALLOCATION OF SECURITIES OF THE NEW COMPANY

	Total Including Interest to 3-31-46 per \$1,000 of Principal (10)	Cash Distribution as per Col. (3) (11)	First Mortgage Bonds (12)	Income Mortgage Bonds (13)	Preferred Stock (14)	Amount of Indebtedness Common Stock (Taken at \$100 per Share) (15)	Total of Cols. (11) to (15) Incl. (16)	Initials of Issues (17)
<b>Seaboard Underlying Divisional Mortgage Bonds:</b>								
Carolina Central RR. Co., 1st Cons. 4's, '49.....	\$1,090.00	\$ 80.00	\$ 830.00	\$ 170.00	\$.....	\$.....	\$1,080.00	CC
Florida Central and Peninsular RR. Co., 1st Cons. 5's, '43.....	1,135.00	100.00	1,000.00	.....	.....	.....	1,100.00	FC&P 1-C
Florida West Shore Ry., 1st 5's, '34.....	1,906.64	87.02	117.76	555.50	377.14	674.60	1,812.02	FWS
Georgia and Alabama Ry., 1st Cons. 5's, '45.....	1,786.25	51.32	58.74	262.55	107.88	614.61	1,095.10	G&A
Georgia, Carolina and Northern Ry. Co., 1st 6's, '34.....	2,070.58	89.83	356.79	441.33	158.09	898.48	1,944.52	GC&N
Seaboard Air Line Ry. Atlanta-Birmingham, 1st 4's, '33.....	1,899.75	80.41	311.31	367.38	146.98	835.04	1,741.12	A-B
The Seaboard and Roanoke RR. Co., 1st 5's, '31.....	1,774.37	78.84	290.93	420.94	237.05	651.08	1,678.84	S&R
The South Bound RR. Co., 1st (Southern Div.) 5's, '41.....	2,101.85	64.19	80.08	480.74	110.79	630.56	1,366.36	SB
Guaranty Trust Co. of N. Y.—Trustee under Lease Agreement Between G&A Ry. & Central of Georgia Ry. Co. ....	.....	.....	.....	.....	.....	.....	.....	Guaranty
<b>Seaboard General Mortgage Bonds:</b>								
Seaboard Air Line Ry., 1st 4's, '50.....	1,845.79	86.07	136.81	699.53	460.33	368.53	1,751.27	1st 4's
Seaboard Air Line Ry., Refunding 4's, '59.....	2,089.27	46.56	108.07	261.32	33.78	566.34	1,016.07	Ref.
Seaboard Air Line Ry., 1st & Cons. 6's, '45.....	2,379.35	57.28	194.47	338.32	55.56	598.72	1,244.35	1&C 6's
<b>Seaboard Collateral Trust Obligations:</b>								
Seaboard Air Line Ry. Co., 3-Yr. 5% Secured Notes, '31.....	2,189.65	45.84	155.56	270.62	44.44	478.91	995.37	3-Yr. Notes
Seaboard Air Line Ry. Co., Sec. 210 6% Loan Notes to U. S. Gov't....	1,892.55	67.38	228.67	397.82	65.33	704.01	1,463.21	210 Loans
<b>Debt of Subsidiary Railroad and Terminal Companies, the properties of which are operated by Seaboard Receivers as part of the System:</b>								
Georgia and Alabama Terminal Co., 1st 5's, '48.....	2,007.50	44.10	50.08	198.76	99.48	566.32	958.74	G&AT
Tampa & Gulf Coast RR. Co., 1st 5's, '53.....	2,065.63	63.09	74.12	348.65	130.98	746.53	1,363.37	T&GC
The Seaboard-Bay Line Co., Sec. 210 Loan-Deficiency Claim.....	1,137.61	23.30	128.70	120.41	31.58	179.24	483.23	Def. Claim

**SUPREME COURT**

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**In the Original Jurisdiction**

**EXHIBIT C**

**SUPPLEMENTAL ORDER**

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*At a Session of the Interstate Commerce Commission,  
Division 4, held at its office in Washington,  
D. C. on the 28th day of June, A. D. 1946.*

**Finance Docket No. 14500**

**Seaboard Air Line Railway Company Receivership**

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**Finance Docket No. 14501**

**Finance Docket No. 14501 (Sub-No. 1)**

**Seaboard Air Line Railroad Company  
Acquisition, Etc.**

Further investigation of the matters and things involved in these proceedings having been made, hearings having been held, and said division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof:

515

*It is ordered, That, subject to the conditions with respect to the protection of employees stated in said report, the purchase by the Seaboard Air Line Railroad Company of the railroad properties and other assets of the Seaboard Air Line Railway Company or its receivers, or both, and the operation by the former of such railroads, including those operated under contract, lease or agreement, and the acquisition of con-*

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## Seaboard Air Line R. R. Co. v. Daniel et al.

517 trol or joint control by the Seaboard Air Line Railroad Company through ownership of capital stock of certain other railroad companies and the Baltimore Steam Packet Company, described in the report aforesaid, upon the terms and conditions in said report found just and reasonable, be, and it is hereby, approved and authorized.

518 *It is further ordered*, That acquisition by the Seaboard Air Line Railroad Company of an interest in the Baltimore Steam Packet Company, as set forth in said report, be, and it is hereby approved and authorized.

519 *It is further ordered*, That control of the various carriers, to the extent stated in said report, by Henry W. Anderson, Joseph France, Otis A. Glazebrook, Jr., Sam H. Husbands, and Leigh R. Powell, Jr., voting trustees, upon the terms and conditions in said report found just and reasonable, be, and they are hereby approved and authorized.

*It is further ordered*, That the Seaboard Air Line Railroad Company when filing schedules adopting or establishing rates or charges applicable to the lines of railroad herein authorized to be purchased shall in such schedules refer to this order by title, date, and docket number.

*It is further ordered*, That the Seaboard Air Line Railroad Company shall report to this Commission as required by valuation order No. 24, effective May 15, 1928.

*It is further ordered*, That, pursuant to a plan of reorganization and the respective mortgages hereinafter indicated, the Seaboard Air Line Railroad Company be, and it is hereby, authorized (1) to issue (a) under and pursuant to and to be secured by a pro-



## In the Original Jurisdiction

posed first mortgage, dated January 1, 1946, to the Mercantile Trust Company of Baltimore, and Nelson H. Stritehoff, as trustees, not exceeding \$32,500,000 of, first-mortgage 50-year 4-percent bonds, series A; (b) under and pursuant to and to be secured by a proposed general mortgage, dated January 1, 1946, to the Guaranty Trust Company of New York and Arthur E. Burke, as trustees, not exceeding \$52,500,000 of income-mortgage 70-year 4 1/2-percent bonds, series A; (c) not exceeding \$15,000,000 of preferred stock 5 percent, series A, of the par value of \$100 a share; and (d) not exceeding 849,997 shares of common stock without par value, but with a stated value of \$100 a share, and such additional shares of common stock up to 675,000 shares as may be necessary to comply with the conversion rights of the income-mortgage bonds, series A, and the preferred stock, series A; said first-mortgage bonds to be dated January 1, 1946, to bear interest at the rate of 4 percent per annum, payable semiannually, and to mature January 1, 1996; said general-mortgage bonds to be dated January 1, 1946, to bear interest at the rate of 4 1/2 percent per annum, payable annually, and to mature January 1, 2016; said stock and bonds to be used pursuant to the plan of reorganization and pertinent court orders, in exchange for existing securities of the corporations involved in the aforesaid plan, as stated in the applications and aforesaid report; and upon the termination of the right of deposit under the aforesaid plan, or at any time thereafter, but not later than April 1, 1947, unless an extension of time is approved by this Commission, to sell from time to time at not less than the then current market prices, any or all of the securities which may not theretofore have been issued



Seaboard Air Line R. R. Co. v. Daniel et al.

pursuant to the aforesaid plan, to the extent necessary to provide cash to pay holders of securities not theretofore deposited thereunder; the respective amounts which they may be entitled to receive.

*It is further ordered*, That the Seaboard Air Line Railroad Company be, and it is hereby, authorized to assume obligations and liabilities under the terms and conditions and to the extent contemplated by the plan of reorganization in respect of certain securities and leases as follows: (1) the obligation of the receivers of the Seaboard Air Line Railway Company, as guarantors, in respect of not exceeding \$13,588,000 of equipment-trust certificates, consisting of \$250,000 of series FF, \$283,000 of series GG, \$192,000 of series HH, \$1,270,000 of Series JJ, \$1,530,000 of series KK, \$1,482,000 of series LL, \$2,346,000 of series MM, \$2,552,000 of series NN, and \$3,683,000 of series OO; and (2) the obligations of Seaboard Air Line Railway Company or its receivers, or both, as guarantors or lessees, or both in respect of \$323,333.33 of first-mortgage 4-percent bonds of the Birmingham Terminal Company, \$100,000 of first and general mortgage 5-percent bonds, \$2,400,000 of refunding and extension mortgage 5-percent bonds, series A, \$1,100,000 of refunding and extension mortgage 6-percent bonds, series B, and \$400,000 of refunding and extension mortgage 4 1/2-percent bonds, series C, all of Jacksonville Terminal Company, \$200,000 of 1 1/2-percent serial promissory notes of the Norfolk & Portsmouth Belt Line Railroad Company, and \$200,000 of first-mortgage 4-percent bonds of the Tampa Union Station Company,

*It is further ordered*, That the Seaboard Air Line Railroad Company be, and it is hereby, authorized to

## In the Original Jurisdiction

assume obligations and liabilities of the Seaboard Air Line Railway Company, or the receivers, or both, as lessee by lease or operating agreement, in respect of the following securities, so far as rental payments are involved: Athens Terminal Company first-mortgage 5-percent bonds, \$200,000; Birmingham Terminal Company, 1500 shares of capital stock of the par value of \$100 each; Durham Union Station Company, 333 shares of capital stock of the par value of \$100 each; and \$60,000 of first-mortgage 5-percent bonds; North Charleston Terminal Company, 1050 shares of the capital stock of the par value of \$100 each; Savannah Union Station Company, \$600,000 of first-mortgage 4-percent bonds; Tampa Union Station Company, 300 shares of capital stock of the par value of \$100 each; Atlanta Terminal Company, \$1,600,000 of first-mortgage 4-percent bonds; and 1500 shares of capital stock of the par value of \$100 each.

*It is further ordered*, That, except as herein authorized, said securities shall not be sold, pledged, repledged, or otherwise disposed of, or obligation assumed, by the Seaboard Air Line Railroad Company, unless or until so ordered or approved by this Commission.

*It is further ordered*, That, within 10 days after the execution of the proposed mortgages, and the amended articles of association, etc., a certified copy of each in the form in which executed, shall be filed by the applicant with this Commission.

*It is further ordered*, That the applicant shall report concerning the matters herein involved in conformity with the order of the Commission, by division 4, dated February 19, 1927, respecting applications

Seaboard Air Line R. R. Co. v. Daniel et al.

filed under section 20a of the Interstate Commerce Act.

And it is further ordered, That nothing herein shall be construed to imply any guaranty or obligation as to said securities, or interest or dividends thereon, on the part of the United States.

By the Commission, division 4.

(SEAL.)

W. P. BARTEL,  
*Secretary.*

A true copy:

W. P. BARTEL,  
*Secretary of the Interstate  
Commerce Commission.*

EXHIBIT D

Columbia, S. C., August 6, 1946.

Honorable W. P. Blackwell  
Secretary of State of South Carolina  
Columbia, South Carolina

Dear Sir:

Seaboard Air Line Railroad Company, a railroad corporation organized under the laws of the State of Virginia, hereby makes application to you to be admitted to do business in South Carolina as a foreign corporation under the provisions of Sections 7764 to 7767, inclusive, of the Code of Laws of South Carolina, 1942, and in connection therewith delivers to you the following:

(a) A written declaration in due form designating 1201 Liberty Life Building in the City of Columbia, South Carolina, as the place of location of the Company in the State of South Carolina at

## In the Original Jurisdiction

which all legal papers may be served upon it by delivery of the same to J. B. S. Lyles, an agent of said Company; 537

(b) Certified copies of its charter and by-laws and all amendments thereto, together with all increases of its capital stock;

(c) A statement sworn to by R. P. Jones, Vice-President of Seaboard Air Line Railroad Company, showing: (1) the residence and postoffice address of Seaboard Air Line Railroad Company within the State of South Carolina, (2) the amount of its capital stock actually paid, and (3) the names of the officers of said Company (including the President and Secretary) and of the Directors of the Company with their respective places of residence and postoffice addresses; and 538

(d) Its certified voucher payable to your order in the amount of \$50.00 covering the fees required by the laws of South Carolina to be paid by Seaboard Air Line Railroad Company making application for admission to do business in South Carolina as a foreign corporation. 539

Seaboard Air Line Railroad Company respectfully requests that you file in your office, as required by law, the papers and documents described in the next preceding paragraph and accept the fees tendered to you by it so as to admit it to do business in South Carolina as a foreign corporation.

For your information, Seaboard Air Line Railroad Company is the successor in ownership and operation of the properties of Seaboard Air Line Railway Company and its Receivers, including 736 miles of railroad located in 30 counties of the State of South Carolina and 600 separate tracts of miscellaneous real estate lo- 540

## Seaboard Air Line R. R. Co. v. Daniel et al.

541 cated in the State which are used or useful in connection with the operation of its railroad system. It operates an extensive interstate railroad system of approximately 4200 miles of railroad lines within and through the States of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama, and is a common carrier by railroad subject to the provisions of the Interstate Commerce Act. The Company was organized for the purpose of carrying out the Plan of Reorganization of Seaboard Air Line Railway Company which has been approved by the Interstate Commerce Commission and the Courts which had jurisdiction of the proceedings for the Reorganization of Seaboard Air Line Railway Company. In the proceedings before the Interstate Commerce Commission under Section 5 of the Interstate Commerce Act for authority to acquire and operate the properties of Seaboard Air Line Railway Company, Seaboard Air Line Railroad Company was relieved by the Interstate Commerce Commission of complying with the provisions of Section 8 of Article 9 of the Constitution of South Carolina and of Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942, by a Report and Order dated 543 June 28, 1946, a certified copy of which is herewith handed to you.

Respectfully yours,

J. B. S. LYLES,

Columbia, S. C.,

W. R. C. COCKE,

Norfolk, Va.,

544 Attorneys for Plaintiff.



# The State of South Carolina IN THE SUPREME COURT

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IN THE ORIGINAL JURISDICTION

OCTOBER TERM, 1946

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**SEABOARD AIR LINE RAILROAD COMPANY,**  
*Plaintiff,*  
*against*

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**JOHN M. DANIEL, As Attorney General of the State  
of South Carolina, and W. P. BLACKWELL, as  
Secretary of State of the State of South Carolina,  
Defendants.**

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## **ANSWER AND RETURN DEMURRER TO ANSWER AND RETURN**

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J. B. S. LYLES,  
Columbia, S. C.,

W. R. C. COCKE,  
Norfolk, Va.,  
*Attorneys for Plaintiff.*

JOHN M. DANIEL, Attorney  
General,

M. J. HOUGH,

T. C. CALLISON, Assistant  
Attorneys General,  
*Attorneys for Defendants.*

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## ANSWER TO COMPLAINT AND RETURN TO RULE TO SHOW CAUSE

The defendants, answering the complaint herein, allege:

### FIRST

On information and belief, the defendants admit the allegations contained in paragraphs one and two of the complaint.

### SECOND

Answering paragraph three of the complaint, the defendants admit the allegations thereof which allege that the Interstate Commerce Commission issued its report and order in a proceeding before it relating to the reorganization of the Seaboard Air Line Railroad Company wherein said Commission did find and order that the plaintiff, in order to own and operate its railroad lines and other properties in South Carolina, is not required to comply with Section 8 of Article 9 of the Constitution of South Carolina and with Section 7777 through Section 7779 of the Code of Laws of South Carolina of 1942, and in said order the Commission did find and order that compliance with the Constitution and Statutory Laws would effect an unnecessary and undue burden upon interstate commerce, and would not be consistent with public interest; but the defendants allege that the said Commission exceeded its authority in undertaking to pass upon the validity of Section 8 of Article 9 of the Constitution of South Carolina and of Section 7777 through 7779 of the Code of Laws of South Carolina, 1942, and so much of said order as undertakes to nullify the Constitution of the State of South Carolina as well as its statutory laws

hereinabove referred to, was completely beyond the scope of the authority of said Commission and beyond its jurisdiction to so declare. The defendants, on information and belief, allege further that the approval by the Interstate Commerce Commission of the application of the plaintiff to purchase and operate the old Seaboard Air Line Railroad lines within the State of South Carolina may be effective to carry out the purposes of the plaintiff without conflicting with the Constitution and Statutory Laws of the State of South Carolina and that the order of the Interstate Commerce Commission which undertakes to override the Constitution and laws of the State of South Carolina is null and void *ab initio* as the said Commission in interpreting Section 5 of the Interstate Commerce Act misconstrued its authority and traveled outside of the scope of its jurisdiction in undertaking to subordinate the Constitution of the State of South Carolina and its statutory laws to the terms of said order.

### THIRD

Answering the fourth paragraph of the complaint, the defendants admit the allegations therein contained, except in addition to the fact that the plaintiff is subject to the provisions of the Act of Congress relating to interstate commerce, it is otherwise subject to the provisions of the Constitution of South Carolina and the statutes of this State providing for and regulation of the organization and chartering of railroad companies doing business or seeking to do business in the State of South Carolina. The defendants further allege, in connection therewith, that the plaintiff is unauthorized to operate its line of railroad through the State of South Carolina without complying with the

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provisions of the State Constitution and State laws relating thereto.

## FOURTH

On information and belief, the defendants admit the allegation contained in the fifth paragraph of the complaint, and allege further in connection therewith that the Governor of the State of South Carolina had a right to assume that the Interstate Commerce Commission would not exceed its authority in passing an order which was completely beyond its jurisdiction to order the plaintiff to operate a railroad in South Carolina without requiring said railroad corporation to comply with the provisions of the Constitution and laws of said State, and that Section 5 (2) (b) of the Interstate Commerce Act (49 U. S. C. A. 5(2) (b) ) clothes said Interstate Commerce Commission with no such authority. The defendant, John M. Daniel, Attorney General of the State of South Carolina, further alleges that he had no notice or information of the filing of such applications until the commencement of this action.

## FIFTH

Answering the sixth paragraph of the complaint, the defendants admit that on June 28, 1946, the Interstate Commerce Commission filed its report and order undertaking to approve the acquisition and operation by the plaintiff of the lines of railroad and properties formerly owned by the Company, including the lines of railroad and properties located in the State of South Carolina. The defendants further admit that said report and order of the Interstate Commerce Commission made the findings alleged and set out in said paragraph six of the complaint; but the



## SUPREME COURT

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11 defendants specifically deny the conclusions reached by said Commission in its report and order as to the illegality and invalidity of the provisions of the South Carolina Constitution and laws requiring any person or corporation seeking to operate a railroad in South Carolina to procure a South Carolina charter. The defendants further deny the findings contained in the order of the Commission which undertake to set out the approximate cost of conforming to the Constitution and laws of this State. The defendants further deny the finding in said order that a compliance with the Constitution and laws of the State of South Carolina would place an undue burden upon interstate commerce.

## SIXTH

11 Answering the seventh paragraph of the complaint, the defendants admit that the plaintiff applied to the defendant, W. P. Blackwell, as Secretary of State of South Carolina, for admission to do business in South Carolina as a foreign corporation under the Sections of the Code of Laws of 1942 providing for domestication of foreign corporations other than railroads and with said application the plaintiff exhibited to said defendant a written stipulation or declaration as alleged in said complaint and tendered the proper fees. This defendant further admits that the plaintiff did exhibit to said defendant, as Secretary of State, certified copies of the report and order of the Interstate Commerce Commission referred to and set out in the complaint; but the said defendant denied the plaintiff admission to this State for the purpose of conducting a railroad through the same as he believed that he had no authority to grant such admission against the plain mandate of Section 8 of Article 9 of the Constitution

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of South Carolina and against the provisions of Section 7777 through Section 7779 of the Code of Laws of South Carolina of 1942. The defendants further allege that they verily believe that they properly construed or interpreted said Section of the State Constitution as well as the Sections of the Code of Laws of 1942 applicable to granting of charters of railroad companies operating within said State. The defendants, therefore, deny that in refusing to admit the plaintiff to do business in South Carolina was in violation of the plaintiff's rights under the provisions of Section 5 of the Interstate Commerce Act. These defendants likewise deny that their refusal to admit the plaintiff to do business in South Carolina, without complying with the Constitution and laws of the State of South Carolina violated the provisions of Section 8 of Article 1, and the Due Process and Equal Protection Clauses of the 14th Amendment to the Constitution of the United States.

## SEVENTH

On information and belief the defendants admit the allegations contained in paragraph 8 of the complaint.

## EIGHTH

The defendants admit the allegations contained in the eighth, ninth and tenth paragraphs of the complaint, except so much of the tenth paragraph as alleges that if the plaintiff is required to conform to the provisions of the State Constitution and laws of South Carolina that it will thereby be deprived of its property without due process of law or that it is denied equal protection of the laws in violation of the 14th

Amendment to the Constitution of the United States, which allegation is specifically denied by the defendants. The defendants further allege, on information and belief, that there is no conflict between the provisions of the Constitution of the State of South Carolina and the statute law of said State and the valid portion of the order of the Interstate Commerce Commission and that both may be harmonized and the plaintiff enabled to comply with both the Constitution and laws of South Carolina and the order of the Interstate Commerce Commission which conforms to and is authorized by the fifth paragraph of the Interstate Commerce Act.

#### NINTH

Answering the eleventh paragraph of the complaint defendants, on information and belief, deny the allegations therein contained and further allege, in connection therewith, that if the plaintiff is permitted to do business in South Carolina without conforming to the provisions of the Constitution and statute law of said State as set out in the complaint that the State of South Carolina and the citizens thereof will be denied many of the rights and privileges which would otherwise enure to the benefit of the State and its citizens.

#### TENTH

Answering the twelfth paragraph of the complaint, the defendants allege that they make no question as to the right of the plaintiff to bring this action in the original jurisdiction of this Court, and believe that the character of the questions involved and the public interest in the prompt adjudication of the questions raised are sufficient to invoke the original jurisdiction of this Court.

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## ELEVENTH

On information and belief, the defendants allege as a further defense to the alleged cause of action of the plaintiff that the plaintiff is and will be engaged in both intrastate and interstate commerce, and that the best interests of the State of South Carolina and its citizens will be served by requiring the plaintiff, as a condition precedent to doing business in the State of South Carolina, to comply with the Constitution and laws of the State of South Carolina, and that such compliance will not conflict with the provisions of the Interstate Commerce Act or the valid portion of the order of the Interstate Commerce Commission set out in the complaint.

## TWELFTH

That except as hereinbefore specifically admitted all material allegations of the complaint are respectfully denied.

Wherefore the defendants pray that this Return to Rule to Show Cause be adjudged to be sufficient; that the temporary restraining order heretofore issued be dissolved and the complaint dismissed.

JOHN M. DANIEL, Attorney  
General,

M. J. HOUGH,

T. C. CALLISON, Assistant  
Attorneys General,

*Attorneys for Defendants.*

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## STATE OF SOUTH CAROLINA

COUNTY OF RICHLAND.

*Personally* appeared W. P. Blackwell who, being first duly sworn, says that he is Secretary of State of the State of South Carolina, and a defendant named in the above-entitled action, that he has read the foregoing answer and the same is true of his own knowledge except so much thereof as is alleged on information and belief, and as to such matters he believes same to be true.

W. P. BLACKWELL

*Sworn to and subscribed before me this 6th day of September, 1946.*

T. C. CALLISON, (L. S.)

*Notary Public in and for S. C.*



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## DEMURRER TO ANSWER AND RETURN

Now comes the plaintiff and demurs to the answer and return to the rule to show cause filed herein by defendants, on the ground that, on its face, it does not constitute a counterclaim or defense or return, in that it admits all allegations of fact of the complaint and states no facts or valid legal grounds as a defense or return, but alleges only various erroneous legal conclusions as reasons why plaintiff is not entitled to the relief prayed in the complaint. The said erroneous legal conclusions, together with the corresponding correct ones, are as follows, to wit:

1. Defendants allege that plaintiff is engaged in intrastate as well as interstate commerce, and is subject to and must comply with the constitutional and statutory provisions of South Carolina prohibiting a foreign railroad corporation from acquiring or operating a railroad in this State, and that, in insisting upon such compliance, defendants have not violated plaintiff's rights under the Federal Constitution or the Interstate Commerce Act;

The correct legal conclusion from the admitted facts is that plaintiff has been relieved from compliance with the constitutional and statutory prohibition of this State by the Report and Order of the Interstate Commerce Commission issued pursuant to its lawful power under the provisions of Section 5 of the Interstate Commerce Act.

2. Defendants allege that the Interstate Commerce Commission exceeded its jurisdiction under Section 5 of the Interstate Commerce Act in undertaking to relieve plaintiff from compliance with the aforesaid constitutional and statutory prohibition of this State, and

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that so much of said Order as undertakes to do so is beyond the jurisdiction of the Commission and is null and void *ab initio*;

The correct legal conclusion from the admitted facts is that said Report and Order of the Commission, on their face and by their terms, show that they are entirely within the power vested in the Commission by Section 5 of the Interstate Commerce Act, and this Honorable Court has no power or jurisdiction to enjoin by indirection, set aside, annul, suspend or disregard the Order of the Interstate Commerce Commission, but must recognize the validity thereof and give the same full force and effect according to its terms:

3. Section 5 of the answer seeks to make a collateral attack on the Report and Order of the Interstate Commerce Commission and undertakes to deny (a) the conclusion of the Commission "as to the illegality and invalidity" of the aforesaid constitutional and statutory requirements of this State, and (b) the findings of the Commission as to the approximate cost of complying with said requirements, and (c) the finding of the Commission that compliance therewith would impose an undue burden on interstate commerce;

The correct legal conclusion from the admitted facts is that the Report and Order of the Commission is conclusive according to its terms unless and until set aside in a direct proceeding for that purpose instituted pursuant to the provisions of Section 207(1) of the Judicial Code of the United States (28 USCA 41 (27)), which provide the sole and exclusive remedy for challenge of such a Report and Order, and this Honorable Court has no jurisdiction to enjoin by indirection, set aside, annul, suspend or disregard the Order of the

## SUPREME COURT

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Interstate Commerce Commission and cannot entertain any contention made by defendants as to the alleged error or invalidity of any conclusion of law or finding of fact made by the Commission in such Report and Order.

4. Defendants deny that the refusal of the Secretary of State to admit plaintiff to do business in South Carolina as a foreign corporation was in violation of plaintiff's rights under Section 5 of the Interstate Commerce Act, and that such refusal, without plaintiff having complied with the Constitution and laws of the State of South Carolina, violated the provisions of Section 8 of Article 1 of, and the due process and equal protection clauses of the Fourteenth Amendment to, the Constitution of the United States;

The correct legal conclusion from the admitted facts is that plaintiff by reason of the Report and Order of the Interstate Commerce Commission dated June 28, 1946, had the right under Section 5 of the Interstate Commerce Act and Section 8 of Article 1 of, and the due process and equal protection clauses of the Fourteenth Amendment to, the Constitution of the United States to be admitted to do business in South Carolina as a foreign corporation under Sections 7765 through 7767 of the Code.

5. Defendants allege that if plaintiff is permitted to do business without conforming to the provisions of the Constitution and laws of this State the State and its citizens will be denied many of the rights and privileges which would otherwise inure to the benefit of the State and its citizens;

The correct legal conclusion from the admitted facts is that if plaintiff is permitted to qualify to do busi-

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S. A. L. R. R. Co. v. Daniel et al.

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ness in South Carolina as a foreign corporation under the provisions of Sections 7765 through 7767 of the Code, the State of South Carolina and its citizens will not be denied any rights and privileges which would or could lawfully inure to the benefit of the State and its citizens.

6. Defendants allege that plaintiff is and will be engaged in both intrastate and interstate commerce and that the best interests of the State of South Carolina and its citizens will be served by requiring the plaintiff to comply with the Constitution and laws of the State of South Carolina, and that such compliance will not conflict with the provisions of the Interstate Commerce Act or the valid portion of the Order of the Interstate Commerce Commission;

The correct legal conclusion from the admitted facts is that Section 5 of the Interstate Commerce Act and the Report and Order of the Commission thereunder, under the facts alleged in the complaint and admitted by the answer and the findings of the Commission, is effective to relieve plaintiff from the limitations, restraints and prohibitions imposed by Section 8 of Article 9 of the Constitution of South Carolina and Sections 7777 through 7779 of the Code, irrespective of the fact that plaintiff may also use its railroad in South Carolina to carry on both intrastate and interstate commerce.

Plaintiff asserts another correct legal conclusion, from the facts alleged in the complaint and admitted by the answer, to wit, that the constitutional and statutory provisions of South Carolina requiring plaintiff, a common carrier by railroad in interstate commerce, to become a corporation of this State as a condition to operating therein, impose an unreasonable and undue

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burden upon interstate commerce irrespective of the findings in the Report, and of the conclusions of the Order of the Commission to that effect.

Wherefore, plaintiff submits that the answer and return raises no issue of fact and, on its face, states no counterclaim, defense or return and alleges no fact or valid conclusion of law showing that plaintiff should be denied any of the relief sought in the complaint, and plaintiff, therefore, prays that this demurrer be sustained, and for judgment in plaintiff's favor on the pleadings.

J. B. S. LYLES,

W. R. C. COCKE,

*Attorneys for Plaintiff.*

## CERTIFICATE OF COUNSEL

We hereby certify, each for himself, that the above demurrer is meritorious, and not intended merely for delay.

J. B. S. LYLES,

W. R. C. COCKE,

*Attorneys for Plaintiff.*

## NOTICE TO DEFENDANTS' ATTORNEYS

*To Honorables John M. Daniel, Attorney General; M. J. Hough and T. C. Callison, Assistant Attorneys General, Attorneys for Defendants:*

You will please take notice that plaintiff will call up the above demurrer for argument in the Supreme Court, in the Court Room in the State Capitol, on Monday, November 11, 1946, at 10 o'clock in the forenoon,



## SUPREME COURT

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or as soon thereafter as this case is called or as the matter can be heard by the Court.

J. B. S. LYLES,

W. R. C. COCKE,

*Attorneys for Plaintiff.*

Service acknowledged and copy received as of the 26th day of September, 1946, without prejudice.

-----  
Attorney General,

-----  
T. C. CALLISON,  
Assistant Attorneys General,  
*Attorneys for Defendants.*

[fol. 153] IN SUPREME COURT OF SOUTH CAROLINA IN THE  
ORIGINAL JURISDICTION, NOVEMBER TERM, 1946

No. 2757

SEABOARD AIR LINE RAILROAD COMPANY, Plaintiff,

vs.

JOHN M. DANIEL, as Attorney General of the State of South  
Carolina, and W. P. BLACKWELL, as Secretary of State  
of the State of South Carolina, Defendants

ORDER SETTING CASE FOR REARGUMENT—June 31, 1947

On June 28, 1946, the Interstate Commerce Commission, acting under the authority purportedly conferred upon it by Section 5 of the Interstate Commerce Act, issued its report and order upon the application of the plaintiff, authorizing its reorganization; and further finding and ordering that the Seaboard Air Line Railroad Company, a Virginia Corporation, could operate its railroad lines and other properties in South Carolina without complying with Section 8 of Article IX of the State Constitution, and Sections 7777 through 7779 of the Code, which prohibit a foreign corporation from acquiring or operating a railroad in this state without first incorporating and obtaining a charter.

It was affirmatively ordered that the delay and expense that would be incurred should the reorganized railroad company undertake to comply with the Constitution and Statutes of South Carolina as to incorporation, would not accord with the national transportation policy and would not be consistent with the public interests.

[fol. 154] This action was brought by the plaintiff in the original jurisdiction of this court, praying three distinct forms of relief:

(1) a declaratory judgment adjudging that plaintiff is entitled to operate its railroad lines through South Carolina without complying with the Constitutional provisions and the applicable statutory laws of the state.

(2) For an order of mandamus directed to the Secretary of State requiring him to accept and file certain documents tendered by the plaintiff under the general

corporation law covered by Sections 7765 and 7766 of the Code, which authorize a foreign corporation, other than a railroad company, to do business in South Carolina.

(3) An injunction against the Attorney General restraining him from enforcing or attempting to enforce the provisions of Section 7784 or Section 7789 of the Code, under which sections a railroad company is penalized for its failure to comply with the Constitution and laws of the state.

The defendants filed an answer and return, and the plaintiff filed a demurrer to the answer.

In this suit, the defendants, who are Constitutional officers of South Carolina, assailed the order of the Interstate Commerce Commission as transcending the authority granted to the Commission by the Congress.

When the case was argued before us, the major issue presented was whether the report and order of the Interstate Commerce Commission was valid and effective under Section 5 of the Interstate Commerce Act to relieve the plaintiff from compliance with the Constitution and statutory provisions of South Carolina which prohibit a foreign railroad corporation from acquiring or operating a railroad in this state without first obtaining a charter. And, further, did the Interstate Commerce Commission go beyond its jurisdiction and into a field into which it was not directed by the Act of Congress in undertaking to say in what state [fol. 155] a railroad corporation should be chartered and in what state it should not be chartered, regardless of the Constitution and statutes of any particular state.

The Judicial Code, Section 208, 28 U. S. C. A., Section 46, provides that suits to enjoin, set aside, annul or suspend any order of the Interstate Commerce Commission, shall be brought in the Federal District Court against the United States. The District Courts have exclusive jurisdiction of this class of cases. While this suit in equity is not brought to enjoin or set aside an order of the Commission, yet it appears to us that the validity of the Commission's order is necessarily involved in the decision of the case, and presented as a direct issue. If we are correct in this, the question then is, should this court entertain jurisdiction at all under the order of the Chief Justice of date August 7, 1946? According to the terms of the order, original jurisdic-

tion was assumed subject to the decision of the Court as a whole, and the determination of the question of jurisdiction was reserved.

The briefs submitted by counsel for the plaintiff and the defendants do not bear, except indirectly, upon the question whether under the federal law this court should entertain jurisdiction at all to pass upon the validity of an order of the Interstate Commerce Commission such as appears to be presented here. It would seem to follow logically that if jurisdiction exists to declare the order valid, it also exists to pronounce it invalid, and hence set aside and annulled—this latter alternative being prohibited by the federal law.

Before undertaking to pass upon the major issue or the subsidiary issues involved in the case, we deem it best that this case be re-argued at the March Term of the Court, for [fol. 156] the sole purpose of hearing counsel on the question of whether this Court has jurisdiction of the subject of the action. And it is so Ordered.

D. Gordon Baker, C. J.; E. L. Fishburne, A. J.;  
T. H. Stukes, A. J.; C. A. Taylor, A. J.; O. Dewey  
Oxner, A. J.

[fol. 157] IN THE SUPREME COURT OF SOUTH CAROLINA

IN THE ORIGINAL JURISDICTION

SEABOARD AIR LINE RAILROAD COMPANY, Plaintiff,

VS.

JOHN M. DANIEL, as Attorney General of the State of South Carolina, and W. P. BLACKWELL, as Secretary of State of the State of South Carolina, Defendants

COMPLAINT DISMISSED

W. R. C. Cocke, of Norfolk, Va., and J. B. S. Lyles, of Columbia, for plaintiff.

Attorney General John M. Daniel and Assistant Attorneys General M. J. Hough and T. C. Callison, for defendants.

OPINION—Filed August 29, 1947

FISHBURNE, A. J.:

On June 28, 1946, the Interstate Commerce Commission, acting under the authority purportedly conferred upon it by Section 5 of the Interstate Commerce Act (49 U. S. C. A.

5), issued its report and order upon the application of the Seaboard Air Line Railroad Company, hereinafter referred to as the new company, authorizing it to purchase and reorganize the Seaboard Air Line Railway Company, sometimes referred to as the old company, which had been in receivership since 1930. The Commission further ordered that the Seaboard Air Line Railroad Company, a Virginia corporation, could operate its railroad lines and other properties in South Carolina without complying with Section 8 of Article IX of the state Constitution and with Sections 7777 through 7779 of the Code, which prohibit a foreign corporation from acquiring or operating a railroad in this state without first incorporating and obtaining a charter.

It was affirmatively ordered that the delay and expense which would be incurred should the reorganized railroad company undertake to comply with the Constitution and statutes of South Carolina as to incorporation, would not accord with the national transportation policy, would burden interstate commerce, and would not be consistent with the public interests.

Shortly after the filing of the Commission's order, this action was brought by the plaintiff in the original jurisdiction of this court, by permission duly granted, praying three distinct forms of relief:

(1) A declaratory judgment adjudging that plaintiff is entitled to operate its railroad lines through South Carolina without complying with the constitutional provisions and the applicable statutory laws of the state;

(2) For an order of mandamus directed to the secretary of state requiring him to accept and file certain documents tendered by the plaintiff under the general corporation law covered by Sections 7765 and 7766 of the Code, which authorize a foreign corporation, other than a railroad company, to do business in South Carolina,

(3) An injunction against the attorney general restraining him from enforcing or attempting to enforce the provisions of Section 7784 or Section 7789 of the Code under which sections a railroad company is penalized for its failure to comply with the constitution and the laws of the state relating to incorporation.

[fol. 158] In the order allowing the institution of this action in the original jurisdiction of the court, the attorney



general was restrained, pending the further order of the court, from enforcing or attempting to enforce the penalty provisions of the Code above referred to, applicable when a railroad company fails to comply with those sections relative to obtaining a charter in this state.

The defendants, who are constitutional officers of the state of South Carolina, assail the order of the Interstate Commerce Commission as transcending the power granted to the Commission by the Congress under the Interstate Commerce Act. They filed an answer and return raising this issue, and the plaintiff filed a demurrer to the answer. The case now comes before us on issues raised by the pleadings.

The major issue presented is whether the report and order of the Interstate Commerce Commission is valid and effective under Section 5 of the Interstate Commerce Act to relieve the plaintiff from compliance with the constitutional and statutory provisions of South Carolina which prohibit a foreign railroad company from acquiring and operating a railroad in this state without first obtaining a charter. And, further, did the Interstate Commerce Commission go beyond its jurisdiction and into a field into which it was not directed by the Act of Congress, in undertaking to say in what state a railroad corporation should be chartered, and in what state it should not be chartered, regardless of the constitution and statutes of any particular state. There are subsidiary questions, but a determination of the main issue will dispose of the case.

The plaintiff, under the order of the Interstate Commerce Commission, is the successor in ownership and operation of the properties of the old company which constitute an extensive railroad system, comprising approximately 4200 miles of railroad lines within and through the states of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama. Plaintiff acquired these railroad lines pursuant to the plan of reorganization approved by the Commission, and since such acquisition has been operating them as a common carrier of freight and passengers by railroad.

Included in such properties now owned and operated by the plaintiff are 736 miles of railroad located within and through thirty counties of the state of South Carolina, which embrace several of its main trunk lines. In addition, plaintiff owns over 600 miscellaneous separate tracts of real estate situated in the state of South Carolina which are

appurtenant to and used or useful in connection with the operation of its system of railroads.

As stated, the plaintiff is a corporation of Virginia. It appears from the record that the states of North Carolina, Georgia, Alabama, and Florida, do not require foreign railroad companies to incorporate. Railroad companies operate within their boundaries as foreign corporations, but are not compelled to obtain a charter therein. The plaintiff knew when it applied to the Interstate Commerce Commission under the plan of reorganization to purchase and operate the railroad system of the old company through South Carolina and the other named states, that it would be required to become a corporation of South Carolina under the constitution and laws of this state. Notwithstanding this, plaintiff made its application to the Commission alleging that it was advised that it would have power to acquire and operate the railroad system of the old company in South Carolina irrespective of the constitutional and statutory requirements—if such acquisition and operation should be authorized by the Interstate Commerce Commission.

The following statement is found in the report and order of the Interstate Commerce Commission:

“It would clearly be an unnecessary and undue burden on interstate commerce for the new company to be subjected to continuing expenses of over \$300,000 a year to maintain a separate corporation to own and operate the railroad in [fol. 159] South Carolina. It is not clear, however, that the cost of organizing a corporation under the laws of South Carolina to acquire the properties in that state and thereafter consolidate the South Carolina corporation with the Virginia corporation, viz, \$71,800, or the cost of maintaining the consolidated corporation as a South Carolina corporation, viz, \$1,000 a year, would be unduly burdensome. Organization of a South Carolina corporation, and consolidation with the Virginia corporation, however, would cause substantial delay and needless expense.”

The Commission went on to find:

“The provisions of Section 5 were further amended by the Transportation Act of 1940 which contains a declaration of the national transportation policy. The provisions as to relief from restraints, limitations and prohibitions of state law which would stand in the way of execution of the policy of Congress were clarified and strengthened. In

administering the provisions of Section 5 and other provisions of the Act we must do so with a view to carrying out the declared policy of Congress, including the promotion of economical and efficient service and the fostering of sound economic conditions in transportation. Corporate simplification wherever possible is in accord with this policy. Furthermore, a termination of a long-standing receivership of railroad properties is always a matter of substantial public interest. The delays that would result and the needless expense that would be incurred should the new company undertake to comply with the constitution and statutes of South Carolina requiring the creation of a separate corporation to acquire, or to acquire and operate, the railroad which the new company proposes to acquire and operate in that state would not accord with the national transportation policy and would not be consistent with the public interest."

It is conceded that this court has jurisdiction to determine whether the order of the Commission was a valid or invalid exercise of power under Section 5 of the Interstate Commerce Act.

The supremacy of congressional legislation over the entire subject of interstate commerce and its instrumentalities has been upheld in numerous cases. Among them may be cited the following: *Houston E. & W. T. R. Co. vs. United States*, 234 U. S. 342, 58 L. Ed. 1341; *Alabama and V. Ry. Co. vs. Jackson and E. Ry. Co.*, 271 U. S. 244, 46 S. Ct. 535; *Texas vs. United States*, 292 U. S. 522, 54 S. Ct. 819; *Morgan vs. Commonwealth of Virginia*, 328 U. S. 373, 90 L. Ed. 1317, 66 S. Ct. 1050, 165 A. L. R. 574.

The defendants raise no question as to the constitutional power of the Congress to confer authority upon the Commission to approve the purchase and reorganization of the old Seaboard Air Line Railway Company. The question here has to do simply with the scope of the authority which has been conferred.

The statutory provisions are found in Section 5 of the Interstate Commerce Act, Paragraph 11, and are as follows:

"The authority conferred by this section shall be exclusive and plenary, and any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall have full power (with the assent, in the case of a purchase and sale, a lease, a corporate consolidation, or a corporate merger, of a majority, unless a differ-

ent vote is required upon applicable state law, in which case the number so required shall assent, of the votes of the holders of the shares entitled to vote of the capital stock of such corporation at a regular meeting of such stockholders, the notice of such meeting to include such purpose, or at a special meeting thereof called for such purpose) to carry such transaction into effect and to own and operate any properties and exercise any control of franchises acquired through said transaction without invoking any approval under state authority; and any carriers or other [fol. 160] corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the anti-trust laws and of all other restraints, limitations and prohibitions of law, Federal, State, or municipal insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchise acquired through such transaction. Nothing in this section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any state."

Under the foregoing provisions, any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall be relieved from the operation of: (a) the anti-trust laws, and (b) all other restraints, limitations and prohibitions of law, Federal, State or municipal *insofar as may be necessary* to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, manage, and operate any properties and exercise any control or franchise acquired through such transaction.

We think it clear from the whole quoted section that the prohibition against the creation, directly or indirectly, of a federal corporation likewise excluded any power to control, limit or prohibit incorporation under state laws. And it follows that no power was conferred upon the Commission to say in what state or states a railroad company may



be incorporated or not incorporated. The Act says that any power granted to any carrier "shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any state." The Commission has undertaken to say, in this transaction whereby the plaintiff has acquired the properties of the old company, that the constitution and laws of South Carolina regarding incorporation may be overridden and disregarded when no such explicit authorization was granted by the Congress.

No case directly in point has been called to our attention. The case relied upon strongly by the plaintiff, which it is asserted most nearly approximates the facts in the instant case, is *Texas vs. United States*, 292 U. S. 522, 54 S. Ct. 819. In that case the court held that the Interstate Commerce Commission, in the exercise of the authority conferred upon it by Section 5 of the Interstate Commerce Act, as amended by the Emergency Railroad Transportation Act, 1933, was empowered to approve a lease of the property of one railroad company to another which permitted the lessee to abandon or to remove from the state of the lessor's incorporation the railroad shops and offices, where a marked saving would result from such abandonment or removal.

It was stated that this approval was authorized notwithstanding a statute of the state of Texas requiring the lessor to retain its general offices within the state, and forbidding it from changing the location of its general offices, machine shops, or round houses save with the consent and approval of the state railroad commission. In the Texas case the question was not involved as to whether or not a railroad company must obtain a charter from Texas to operate therein. The question as to what state or states should grant charters to the railroads operating in Texas was not raised. The Commission had to deal only with the physical operation of the railroad as such operation might relate to the best interest of commerce and to insure adequate transportation service.

The Interstate Commerce Act not only fails to specifically grant authority to the Commission to deal with the matter [fol. 161] of charters, but it may be inferred, as we have pointed out, from the language used that the purpose of congress was to prohibit the Commission from directly or indirectly determining what state or states a railroad company should be incorporated in.



Unquestionably, the Commission acted within the scope of its authority in passing upon and approving the details of the reorganization plan of the Seaboard Air Line Railway, its method of financing, and whether the reorganization plans were for the best interest of interstate commerce. But it is far from clear that the Act conferred upon it the power to discriminate, in effect, against any state or states by adjudging in what state a charter should be granted.

The plaintiff contends that to comply with the statutes of South Carolina and the constitutional provision requiring that railroads operating in this state should obtain a charter, would impose an undue burden on interstate commerce.

As shown by the report and order of the Commission, the cost incident to obtaining a South Carolina charter is negligible as compared with the millions of dollars in value of the physical properties and the millions of dollars of income owned and controlled by the plaintiff. It might be inconvenient or undesirable to obtain a South Carolina charter, but we do not see how such requirement would constitute a burden on interstate commerce.

Holding as we do that the Interstate Commerce Commission lacked the power under Section 5 of the Interstate Commerce Act to authorize the plaintiff to operate its railroad lines in this state without first obtaining a charter, it necessarily follows that the complaint should be dismissed and the restraining order heretofore granted revoked.

It is so ordered.

Baker, C.J., Stukes, Taylor and Oxner, JJ., concur.

[fol. 162] IN THE SUPREME COURT OF SOUTH CAROLINA

[Title omitted]

PETITION OF SEABOARD AIR LINE RAILROAD COMPANY FOR  
APPEAL TO THE SUPREME COURT OF THE UNITED STATES—  
Filed September 8, 1947

To the Honorable, the Chief Justice of the Supreme Court  
of South Carolina:

The petition of Seaboard Air Line Railroad Company, the plaintiff herein, respectfully shows that on August 29th, 1947, a judgment was entered herein in favor of the defendants and against the plaintiff dismissing the complaint of

the plaintiff, in which judgment and the proceedings had prior thereto in this action certain errors were committed in the prejudice of this plaintiff, all of which more fully appear from the assignment of errors which is filed herewith. Wherefore plaintiff prays that an appeal be allowed to the Supreme Court of the United States and that the record on appeal be made and certified and sent to the Supreme Court of the United States.

J. B. S. Lyles, W. R. C. Cocke, Attorneys for plaintiff.  
September 8, 1947.

[fol. 163] IN THE SUPREME COURT OF SOUTH CAROLINA

[Title omitted]

ASSIGNMENT OF ERRORS—Filed September 8, 1947

Seaboard Air Line Railroad Company, a corporation, plaintiff in the above entitled cause files the following assignment of errors upon which it shall rely in prosecution of its appeal to the Supreme Court of the United States herewith petitioned for in said cause from the judgment of the Supreme Court of South Carolina entered on the 29th day of August 1947.

1. The Supreme Court of South Carolina erred in holding and deciding that under the order of the Interstate Commerce Commission issued on June 29th, 1946 plaintiff, a railroad corporation created and existing under the laws of the State of Virginia and a common carrier by railroad subject to the provisions of the Interstate Commerce Act, was not and is not authorized and empowered to acquire, own and operate the railroad lines and properties in the State of South Carolina formerly belonging to Seaboard Air Line Railway Company without complying with the provisions of Section 8 of Article 9 of the Constitution of South Carolina and with the provisions of Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942, which prohibit a railroad corporation from owning or operating a railroad in said State without first securing a charter of incorporation as a corporation of South Carolina or consolidating with a corporation of South Carolina thereby becoming a corporation of said State.

{fol. 164} 2. The Supreme Court of South Carolina erred in holding and deciding that the order of the Interstate

Commerce Commission issued on June 29th, 1946, was and is invalid insofar as it authorizes plaintiff, Seaboard Air Line Railroad Company, a railroad corporation of Virginia and a common carrier by railroad subject to the provisions of the Interstate Commerce Act, to acquire, own, and operate the railroad lines and properties in the State of South Carolina formerly belonging to Seaboard Air Line Railway Company without complying with the provisions of Section 8 of Article 9 of the Constitution of South Carolina and with the provisions of Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942, which prohibit a railroad corporation from owning or operating a railroad in said State without first securing a charter of incorporation as a corporation of South Carolina or consolidating with a corporation of South Carolina thereby becoming a corporation of said State.

3. The Supreme Court of South Carolina erred in holding and deciding that Section 5 of the Interstate Commerce Act as amended (49 U. S. C. A. 5) did not empower the Interstate Commerce Commission to authorize plaintiff to acquire, own and operate the railroad lines and properties in South Carolina formerly owned by Seaboard Air Line Railway Company without becoming a corporation of South Carolina.

4. The Supreme Court of South Carolina erred in failing and refusing to hold and decide that the order of the Interstate Commerce Commission dated June 29th, 1946, authorizing plaintiff to acquire, own and operate railroad properties in the State of South Carolina formerly owned by Seaboard Air Line Railway Company was valid and effective under Section 5 of the Interstate Commerce Act as amended (49 U. S. C. A. 5) to relieve plaintiff Seaboard Air Line Railroad Company, a railroad corporation of Virginia and a common carrier by railroad subject to the provisions of the Interstate Commerce Act, from compliance with the constitutional and statutory provisions of South [fol. 165] Carolina prohibiting a railroad corporation from acquiring, owning or operating a railroad in South Carolina without first becoming a corporation of said State.

5. The Supreme Court of South Carolina erred in failing and refusing to hold and decide that the provisions of Section 8 of Article 9 of the Constitution of the State of South

Carolina and the provisions of Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942, prohibiting a railroad corporation from acquiring, owning or operating a railroad in South Carolina without first becoming a corporation of that State, as applied to plaintiff, a railroad corporation created and existing under the laws of the State of Virginia and a common carrier in interstate commerce, are invalid as imposing an undue and unreasonable obstruction to and burden upon interstate commerce in violation of Clause 3 of Section 8 of Article 1 of the Constitution of the United States.

6. The Supreme Court of South Carolina erred in failing and refusing to hold and decide that plaintiff, a railroad corporation created and existing under the laws of the State of Virginia and a common carrier by railroad subject to the provisions of the Interstate Commerce Act, was not and is not required to obtain a charter as a corporation of South Carolina or consolidate with a corporation of said State thereby becoming a South Carolina corporation as a condition to acquisition, ownership and operation of the railroad lines and properties in the State of South Carolina formerly owned by Seaboard Air Line Railway Company.

7. The Supreme Court of South Carolina erred in holding and deciding that the South Carolina prohibitions and requirements (Section 8 of Article 9 of the Constitution of South Carolina and Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942) against a railroad corporation acquiring, owning or operating a railroad in South Carolina at all, either in intrastate or interstate commerce, without first becoming a corporation of said [fol. 166] State, are not, irrespective of the decision and order of the Interstate Commerce Commission, dated June 29th, 1946, relieving plaintiff of said prohibitions and requirements, an unreasonable obstruction to and burden upon interstate commerce and therefore invalid under Clause 3 of Section 8 of Article 1 of the Constitution of the United States.

Said Court erred in failing to hold that since plaintiff, Seaboard Air Line Railroad Company, is engaged inseparably in both intrastate and interstate commerce and that its interstate and intrastate transactions are inextricately interwoven and related, said South Carolina constitutional and statutory requirements operate as an unreasonable



obstruction to and burden upon interstate commerce and are therefore invalid under the above referred to Commerce Clause of the Constitution of the United States.

8. The Supreme Court of South Carolina erred in failing and refusing to hold and decide that plaintiff is entitled to have the Secretary of State of the State of South Carolina accept and file the appropriate papers and documents tendered him by plaintiff under Sections 7765 and 7766 of the Code of Laws of South Carolina, 1942, upon the tender of the fees prescribed by Section 7767 of said Code to qualify plaintiff as a foreign corporation to own property and transact business in South Carolina.

9. The Supreme Court of South Carolina erred in failing to hold and decide that Section 8 of Article 9 of the Constitution of South Carolina and Sections 7777, 7778 and 7779 which indiscriminately prohibit plaintiff, a railroad corporation created and existing under the laws of the State of Virginia, from acquiring, owning, or operating a railroad in South Carolina in either intrastate or interstate commerce without becoming a corporation of South Carolina, are invalid as contrary to the rights of plaintiff under Clause 3 of Section 8 of Article 1 of the Constitution of the United States to own and operate a railroad in South Carolina in interstate commerce without license, consent, obstruction, or undue burden imposed by said State.

[fol. 167] 10. The decision and judgment of the Supreme Court of South Carolina holding that plaintiff, a railroad corporation validly created and existing under the laws of the State of Virginia and a common carrier by railroad in interstate commerce, could not lawfully acquire, own or operate its railroad properties in South Carolina without first becoming a corporation of said State, deprives plaintiff of its property without due process of law and denies to plaintiff the equal protection of the laws in violation of the Fourteenth Amendment to the Constitution of the United States.

11. The Supreme Court of South Carolina erred in failing and refusing to hold that the defendant John M. Daniel as Attorney General of the State of South Carolina should be perpetually restrained and enjoined from attempting to enforce against plaintiff the provisions of Sections 7784 or 7789 of the Code of Laws of South Carolina, 1942, which



impose a penalty of \$500.00 a day for each county in which a railroad company shall operate without first having become a corporation of South Carolina, on the ground that since the statute of South Carolina provides no method whereby plaintiff could test in advance of incurrence of the penalties, if it should commence operation, the constitutional validity of said requirements as to incorporation in South Carolina, said Sections 7784 and 7789 of said Code are invalid as depriving plaintiff of its property without due process of law and denying to plaintiff the equal protection of the laws in violation of the Fourteenth Amendment to the Constitution of the United States.

Wherefore, plaintiff prays that the said judgment may be reversed, and for such other and further relief as to the Court may seem just and proper.

J. B. S. Lyles, W. R. C. Cocke, Attorneys for Plaintiff.

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[fol. 168] IN THE SUPREME COURT OF SOUTH CAROLINA

[Title omitted]

ORDER ALLOWING APPEAL TO THE SUPREME COURT OF THE  
UNITED STATES—September 8, 1947

The plaintiff in the above entitled cause having prayed for allowance of an appeal to the Supreme Court of the United States from the judgment made and entered in the above entitled cause by the Supreme Court of the State of South Carolina on the 29th day of August, 1947, and from each and every part thereof, and having presented and filed its petition for appeal, assignment of errors, prayer for reversal and statement as to jurisdiction, pursuant to the applicable statutes and rules of the Supreme Court of the United States; it is now

Ordered that, as provided by law, an appeal be and the same is hereby allowed to the Supreme Court of the United States from the final judgment of the Supreme Court of the State of South Carolina rendered in this cause on the 29th day of August, 1947; and it is

Further ordered that the Clerk of this Court shall prepare and certify a transcript of the entire record, proceedings, and the opinion and judgment of the Court in this

cause, and transmit the same to the Supreme Court of the [fol. 169] United States so that he shall have the same in the said Court within forty days of this date; and it is

Further ordered that security for all damages and costs if plaintiff-appellant fail to make its plea good be fixed in the sum of Two thousand (\$2,000.00) dollars; and it is

Further ordered that said appeal shall operate as a supersedeas of the judgment appealed from pending the determination of such appeal by the Supreme Court of the United States; and it is

Further ordered that the temporary restraining order issued in this cause by the Chief Justice of this Court on August 7th, 1946, restraining defendant John M. Daniel as Attorney General of South Carolina from enforcing or attempting to enforce Section 7784 or Section 7789 of the Code of Laws of South Carolina, 1942, against plaintiff, or collecting or attempting to collect any penalties therein described from plaintiff, shall remain in full force and effect until the expiration of thirty days after the date of receipt by this Court of the mandate of the Supreme Court of the United States following its decision on said appeal.

D. Gordon Baker, Chief Justice, Supreme Court of  
South Carolina.

Dated September 8th, 1947.

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[fols. 170-189] Cost Bond on Appeal for \$2,000.00 approved and filed Sept. 8, 1947, omitted in printing.

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[fols. 190-193] Citation in usual form, filed Sept. 8, 1947, omitted in printing.

## [fol. 194] IN THE SUPREME COURT OF SOUTH CAROLINA

[Title omitted]

STIPULATION FOR TRANSCRIPT OF RECORD ON APPEAL TO BE  
PROPOSED AND FORWARDED TO THE CLERK OF THE SUPREME  
COURT OF THE UNITED STATES—Filed September 29, 1947

It is hereby stipulated and agreed by and between the parties hereto by their attorneys of record that for the purposes of the appeal to the Supreme Court of the United States from the judgment of said Supreme Court of South Carolina entered August 29th, 1947 which was allowed herein by order of Honorable D. Gordon Baker, Chief Justice of the Supreme Court of South Carolina dated September 8th, 1947, the Clerk of the above entitled Court is requested to prepare and forward to the Clerk of the Supreme Court of the United States the transcript of the record on said appeal which shall include the entire record and proceedings in the Supreme Court of South Carolina in this cause, consisting of the following papers with all filing marks thereon:

1. Complaint in the original jurisdiction of the Supreme Court of South Carolina with all exhibits to said complaint, filed August 7th, 1946.

2. Rule to show cause and temporary restraining order issued by Honorable D. Gordon Baker, Chief Justice of the Supreme Court of South Carolina, August 7th, 1946.

3. Summons dated and filed August 7th, 1946.

4. Answer and return to rule to show cause of defendants John M. Daniel as Attorney General of the State of South [fol. 195] Carolina and W. P. Blackwell as Secretary of State of the State of South Carolina, filed September 30th, 1946.

5. Demurrer of plaintiff to answer, filed September 30th, 1946 and acknowledgment of service by attorneys for defendants.

6. Notice from attorneys for plaintiff to defendants' attorneys that demurrer to answer would be called up for argument in the Supreme Court of South Carolina on November 11th, 1946 and acknowledgment of service by attorneys for defendants.

7. Order of Court directing reargument dated and filed January 31st, 1947.

8. Opinion and judgment of the Supreme Court of South Carolina, filed August 29th, 1947.

9. Petition for Appeal.

10. Assignment of Errors.

11. Order Allowing Appeal.

12. Appeal Bond.

13. Statement as to Jurisdiction.

14. Citation.

15. Acknowledgment by attorneys for defendants on September 8th, 1947 of service of copies of (a) Petition for Appeal, (b) Order allowing Appeal, (c) Bond on Appeal, (d) Assignment of Errors, (e) Statement as to Jurisdiction, (f) Citation.

16. Statement directing attention of defendants-appellees to the provisions of paragraph 3 of Rule 12 of the Supreme Court of the United States, and acknowledgment of service by attorneys for defendants-appellees.

17. Stipulation of attorneys for appellant and appellees for transcript of record.

18. Certificate of Clerk of the Supreme Court of South Carolina certifying the record on appeal to the Supreme Court of the United States.

Dated this 29th day of September, 1947.

J. B. S. Lyles, W. R. C. Cocke, L, Attorneys for Appellant; John M. Daniel, Attorney General of S. C., T. C. Callison, Assistant Attorney General of S. C., Attorneys for Appellees.

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[fols. 196-197] Clerk's Certificate to foregoing transcript omitted in printing.

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[fol. 198] IN THE SUPREME COURT OF THE UNITED STATES

[Title omitted]

STATEMENT OF POINTS TO BE RELIED UPON BY APPELLANT AND DESIGNATION OF THE PARTS OF THE RECORD NECESSARY FOR THE CONSIDERATION THEREOF—Filed October 18, 1947

Pursuant to the requirements of paragraph 9 of rule 13 of the rules of this Court, appellant submits the following statement of the points upon which it intends to rely on the

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appeal and a designation of the parts of the record necessary for the consideration thereof.

1. The Interstate Commerce Commission had the power under Section 5 of the Interstate Commerce Act, as amended, to make the decision and order in question and to authorize appellant (as it did) to acquire, own and operate the railroad lines and other properties in South Carolina formerly belonging to Seaboard Air Line Railway Company, without compliance with the requirements of Section 8 of Article 9 of the Constitution of South Carolina and of Sections 7777, 7778 and 7779 of the Code of Laws of South Carolina, 1942, which prohibit a foreign railroad corporation from owning or operating a railroad in that State without first, either (a) obtaining a charter of incorporation [fol. 199] as a South Carolina corporation, or (b) consolidating with an existing South Carolina railroad corporation, thereby becoming a corporation of that State.

2. The Supreme Court of South Carolina erred: (a) in holding and deciding that the decision and order of the Interstate Commerce Commission, in the respect in question, was beyond the powers conferred upon it by Section 5 of the Interstate Commerce Act, as amended, and that said decision and order were not effective to relieve appellant of compliance with said state constitutional and statutory provisions; (b) in holding and deciding that the Commission, by the decision and order in question, (i) undertook to say in what state or states a railroad company could be incorporated or not incorporated, or (ii) to discriminate against any state in respect thereto; and (c) that the constitution and laws of South Carolina regarding foreign railroad corporations may be overridden and disregarded even though there is no explicit authorization therefor in the Interstate Commerce Act. The Commission made no such decision but held that under Section 5 of the Interstate Commerce Act, as amended, it was in the public interest that appellant, a Virginia corporation and a common carrier subject to the provisions of the Interstate Commerce Act, should be authorized to acquire, own and operate said railroad properties in South Carolina as a part of its interstate railroad system and to be relieved of the restraints, limitations and prohibitions of the constitution and laws of the State of South Carolina specifically referred to in Point 1 hereof.



3. In enacting Section 5 of the Interstate Commerce Act it was the clear intent of the Congress to empower the Commission to authorize a common carrier by railroad, organized under the laws of any state, to acquire, own and operate an entire integrated interstate railroad system, without consent of the State of South Carolina or compliance with the aforesaid constitutional and statutory provisions of said State imposing conditions on such consent, upon a finding by the Commission that such acquisition, ownership and operation would be in the public interest.

4. The constitutional and statutory provisions of South Carolina referred to in Point 1 above, in and of themselves, violate Clause 3 of Section 8 of Article 1 of the Federal Constitution by imposing an undue and unreasonable burden on interstate commerce, apart from any finding by the Commission to that effect, because said provisions absolutely prohibit any railroad corporation organized under the laws of a state other than South Carolina and engaged in both intrastate and interstate commerce, from operating as a common carrier in that State. The South Carolina law prohibits any ownership and operation at all by appellant. The intrastate and interstate operations of the interstate railroad system of appellant are so inextricably blended and intertwined that the South Carolina law effects a complete prohibition against any operation at all in South Carolina.

5. The said constitutional and statutory provisions of South Carolina and the decision and judgment of the Supreme Court of South Carolina, holding that appellant, a railroad corporation validly created and existing under the laws of the State of Virginia and a common carrier by railroad in interstate commerce, could not lawfully acquire, own or operate its railroad properties in South Carolina without first becoming a corporation of said State, deprive appellant of its property without due process of law and [fol. 201] deny to appellant the equal protection of the laws in violation of the Fourteenth Amendment to the Constitution of the United States.

6. The Supreme Court of South Carolina erred in failing and refusing to hold and decide that appellant is entitled to have appellee, W. P. Blackwell, as Secretary of State of the State of South Carolina, accept and file the appropriate papers and documents tendered him by appellant under Sections 7765 and 7766 of the Code of Laws of South Caro-

lina, 1942, with a tender of the fees prescribed by Section 7767 of said Code, to qualify appellant as a foreign corporation to own property and transact business in South Carolina.

7. The Supreme Court of South Carolina erred in failing and refusing to hold that appellee, John M. Daniel, as Attorney General of the State of South Carolina, should be perpetually restrained and enjoined from attempting to enforce against appellant the provisions of Sections 7784 and 7789 of the Code of Laws of South Carolina, 1942, which impose a penalty of \$500.00 a day for each county in which a railroad company shall operate without having first become a corporation of South Carolina, on the ground that, since the statutes of South Carolina provide no method whereby appellant could test in advance of incurrence of the penalties, if it should commence operation, the constitutional validity of said requirements as to incorporation in South Carolina, said Sections 7784 and 7789 of said Code are invalid as depriving appellant of its property without due process of law and as denying to appellant the equal protection of the laws in violation of the Fourteenth Amendment to the Constitution of the United States.

[fol. 202] Appellant designates the entire record as necessary for the consideration of the points above stated.

W. R. C. Cocke, J. B. S. Lyles, Attorneys for Appellant.

#### ACKNOWLEDGMENT OF SERVICE

Service of the above and foregoing statement of points to be relied upon by appellant and designation of the parts of the record necessary for the consideration thereof acknowledged without prejudice and a true copy thereof received this 17th day of October, 1947.

John M. Daniel, Attorney General of South Carolina,  
T. C. Callison, Assistant Attorney General of  
South Carolina, Attorneys for Appellees.

[fol. 202a]

[File endorsement omitted]

## [fol. 203] SUPREME COURT OF THE UNITED STATES

ORDER NOTING PROBABLE JURISDICTION—October 27, 1947.

The statement of jurisdiction in this case having been submitted and considered by the Court, probable jurisdiction is noted.

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Endorsed on Cover: File No. 52,620 South Carolina/Supreme Court, Term No. 390, Seaboard Air Line Railroad Company, Appellant, vs. John M. Daniel, as Attorney General of the State of South Carolina, and W. P. Blackwell, as Secretary of State of South Carolina. Filed October 7, 1947. Term No. 390 O. T. 1947.

(3157)

**FILE COPY**

Office - Supreme Court, U. S.

**FILED**

**OCT 7 1947**

CHARLES ELBERT STAPLEY  
CLERK

**SUPREME COURT OF THE UNITED STATES**

**OCTOBER TERM, 1947**

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**No. 390**

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**SEABOARD AIR LINE RAILROAD COMPANY,**  
*Appellant,*

**vs.**

**JOHN M. DANIEL, AS ATTORNEY GENERAL OF THE STATE  
OF SOUTH CAROLINA, AND W. P. BLACKWELL, AS SECRETARY  
OF STATE OF THE STATE OF SOUTH CAROLINA**

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**APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA**

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**STATEMENT AS TO JURISDICTION**

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**J. B. S. LYLES,  
W. R. C. COCKE,  
Counsel for Appellant.**

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<i>United States v. New York Central R. Co.</i> , 272 U. S. 457	13
<i>Western Turf Assn. v. Greenberg</i> , 204 U. S. 359	13
<i>Young, Ex parte</i> , 209 U. S. 123	13

## STATUTES CITED

## Code of Laws of South Carolina 1942:

Section 7777, Vol. 4, pp. 505 and 506	3
Section 7778, Vol. 4, p. 506	3
Section 7779, Vol. 4, p. 506	4
Section 7784, Vol. 4, p. 507	4
Section 7785, Vol. 4, p. 508	5
Section 7789, Vol. 4, pp. 508 and 509	4

Constitution of South Carolina 1895, Section 8, Article 9—Code of Laws of South Carolina, 1942, Volume 1, pages 1305 and 1306

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## Constitution of the United States:

Article I, Section 8, Clause 3	11
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Judicial Code, Section 237, as amended (28 U. S. C. A. 344)

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IN THE SUPREME COURT, OF  
THE STATE OF SOUTH CAROLINA

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Case No. 2807

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SEABOARD AIR LINE RAILROAD COMPANY,  
*Plaintiff,*

vs.

JOHN M. DANIEL, AS ATTORNEY GENERAL OF THE STATE  
OF SOUTH CAROLINA, AND W. P. BLACKWELL, AS SECRETARY  
OF STATE OF THE STATE OF SOUTH CAROLINA

*Defendants*

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IN THE ORIGINAL JURISDICTION

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**STATEMENT AS TO JURISDICTION OF THE  
SUPREME COURT OF THE UNITED STATES**

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Pursuant to the requirements of Rule 12 of the Supreme Court of the United States plaintiff presents this separate statement particularly disclosing the basis upon which plaintiff contends that the said Supreme Court of the United States has jurisdiction to review the final judgment of this Court entered in the above entitled cause on August 29th, 1947. Such basis is as follows:

1. The statutory provision believed to sustain the jurisdiction of the Supreme Court of the United States is Section 237 of the Federal Judicial Code as amended (28 U. S. C. A. Section 344).

2. The constitutional and statutory provisions of the State of South Carolina the validity of which is involved in this suit are as follows:

Section 8, Article 9 of the Constitution of the State of South Carolina 1895—Code of Laws of South Carolina 1942, Volume 1, pages 1305 and 1306.

*No foreign corporation can build or operate a railroad in this State—no general or special law for foreign corporation, except on conditions.* The General Assembly shall not grant to any foreign corporation or association a license to build, operate or lease any railroad in this State; but in all cases where a railroad is to be built or operated, or is now being operated, in this State, and the same shall be partly in this State and partly in another State, or in other States, the owners or projectors thereof shall first become incorporated under the laws of this State; nor shall any foreign corporation or association lease or operate any railroad in this State, or purchase the same or any interest therein.

Consolidation of any railroad lines and corporations in this State with others shall be allowed only where the consolidated company shall become a domestic corporation of this State. No general or special law shall ever be passed for the benefit of any foreign corporation operating a railroad under any existing license of this State or under any existing lease, and no grant of any right or privilege and no exemption from any burden shall be made to any such foreign corporation, except upon the condition that the owners or stockholders thereof shall first organize a corpo-

ration in this State under the laws thereof; and shall thereafter operate and manage the same and the business thereof under said domestic charter.

Section 7777—Code of Laws of South Carolina 1942,  
Volume 4, pages 505 and 506

*Requisites for obtaining charter.* The owners or stockholders of each and every railroad company created or organized or by virtue of the laws of any government or State, other than this State, desiring to own property or carry on business or exercise any corporate franchise in this State whatsoever, shall, either in their names or by such persons, as they shall designate, first apply for a charter and become incorporated, as a corporation of this State, in the manner provided by chapter 159. At least one of the petitioners for such charter of incorporation, and at least one of the incorporators of such railroad companies shall be a resident of this State.

Section 7778—Code of Laws of South Carolina 1942,  
Volume 4, page 506

*How foreign railroad companies may do business in this State.* Each and every railroad company created or organized under and by the laws of any government or State, other than this State, and now operating, any railroad in this State, either as the owners thereof or otherwise, or carrying on any business or exercising any corporate franchise in this State, shall, on or before the first day of June, 1902, apply for a charter of incorporation under the laws of this State, in the manner directed in section 7777, and no such railroad company shall carry on business or exercise any corporate franchise in this State after the said date, without having complied with the provisions of Sections 7777 thru 7779 and 7783 thru 7787.

4

Section 7779—Code of Laws of South Carolina 1942,  
Volume 4, page 506

*One of the corporators must be resident.* No charter shall be granted to any such railroad company under the provisions of Sections 7777 thru 7779 and 7783 thru 7787, or of chapter 159 unless at least one of the corporators is a resident of this State, and all privileges heretofore acquired by any such railroad companies doing business in this State, are hereby revoked and repealed, on and after June 1, 1902, unless such companies have complied with the requirements of Sections 7777 thru 7779 and 7783 thru 7787.

Section 7784—Code of Laws of South Carolina 1942,  
Volume 4, page 507

*Penalty for failure to comply with law.* It shall be unlawful for any such foreign railroad company to do business, or attempt to do business, in this State without first having complied with the requirements of Sections 7777 thru 7779 and 7783 thru 7787. Any violation of Sections 7777 thru 7779 and 7783 thru 7787 shall be punished by the forfeiture to the State by the party offending of a penalty of five hundred dollars, to be recovered by suit in the court of common pleas, for each and every county in which such offender does, or attempts to do, business, or in any other court of competent jurisdiction. And it shall be the duty of the attorney general to bring suit for recovery of such penalty for each and every offense.

Section 7789—Code of Laws of South Carolina 1942,  
Volume 4, pages 508 and 509

*Foreign companies must comply.* It shall be unlawful for any such foreign corporation to do business, or attempt to do business, in this State without first having complied with the requirements of this chapter, and any violation of this



chapter shall be punished by the forfeiture to the State, by the party offending, of a penalty of five hundred dollars, to be recovered by suit in the court of common pleas for any county in which such offender does, or attempts to do, business, or any other court of competent jurisdiction.

Section 7785—Code of Laws of South Carolina 1942,  
Volume 4, page 508

*Consolidations of railroad companies.* The provisions of Sections 7777 thru 7779 and 7783 thru 7784 shall in no way abrogate or repeal the right of railroad companies to consolidate according to law or effect consolidation already made according to law, when at least one of the corporations so consolidating is a corporation of this State, with corporators resident in this State.

3. The date of the judgment sought to be reviewed is August 29th, 1947.

4. The nature of the case and the rulings of the Supreme Court of South Carolina bringing the case within the jurisdictional provisions relied on and the cases believed to sustain the jurisdiction are as follows:

Plaintiff Seaboard Air Line Railroad Company (hereafter referred to as the new company) is a corporation organized and existing under the laws of the State of Virginia. It is the successor in ownership and operation of the properties of the Seaboard Air Line Railway Company (hereafter referred to as the old company), constituting a railroad system comprising approximately 4200 miles of railroad lines within and through the States of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama and is a common carrier of freight and passengers by railroad subject to the provisions of the Acts of Congress relating to interstate commerce. Plaintiff was organized

for the purpose of carrying out the plan of reorganization of the old company which plan was approved by the Interstate Commerce Commission and by the United States District Courts having jurisdiction of the reorganization proceedings.

Pursuant to said reorganization plan and with the approval of the Interstate Commerce Commission under Section 5 of the Interstate Commerce Act as amended (49 U. S. C. A. 5) plaintiff acquired, and on August 1st, 1946, prior to the filing of this suit on August 7th, 1946, commenced operation of the railroad system and properties above described. Included in such properties are 736 miles of railway main lines located in thirty counties in the State of South Carolina and lying between various points in the State and connecting with points on the system in North Carolina and Georgia. In addition plaintiff owns over 600 separate tracts of miscellaneous real estate in South Carolina which are appurtenant to or are used or usable in connection with the operation of said system of railways.

Plaintiff applied to the Interstate Commerce Commission under Section 5 of the Interstate Commerce Act as amended by the Transportation Act of 1940 to acquire, own and operate as a common carrier the said railroad properties. The said Interstate Commerce Commission upon hearing after due notice to the Governor of South Carolina as provided by Section 5 (2) (b) of the said Interstate Commerce Act issued its decision and order authorizing such acquisition, ownership and operation.

The pertinent provisions of Section 5 of the Interstate Commerce Act conferring such authority upon the Commission are as follows:

“(2)(a) It shall be lawful, with the approval and authorization of the Commission, as provided in subdivision (b)—

"(i) for two or more carriers to consolidate or merge their properties or franchises, or any part thereof, into one corporation for the ownership, management, and operation of the properties theretofore in separate ownership; or for any carrier, or two or more carriers jointly, to purchase, lease, or contract to operate the properties, or any part thereof, of another; or for any carrier, or two or more carriers jointly, to acquire control of another through ownership of its stock or otherwise; or for a person which is not a carrier to acquire control of two or more carriers through ownership of their stock or otherwise; or for a person which is not a carrier and which has control of one or more carriers to acquire control of another carrier through ownership of its stock or otherwise; or

(ii) for a carrier by railroad to acquire trackage rights over, or joint ownership in or joint use of, any railroad line or lines owned or operated by any other such carrier, and terminals incidental thereto.

“(b) Whenever a transaction is proposed under subparagraph (a), the carrier or carriers or person seeking authority therefor shall present an application to the Commission, and thereupon the Commission shall notify the Governor of each State in which any part of the properties of the carriers involved in the proposed transaction is situated, and also such carriers and the applicant or applicants (and, in case carriers by motor vehicles are involved, the persons specified in section 305 (e)), and shall afford reasonable opportunity for interested parties to be heard. If the Commission shall consider it necessary in order to determine whether the findings specified below may properly be made, it shall set said application for public hearing, and a public hearing shall be held in all cases where carriers by railroad are involved. If the Commission finds that, subject to such terms and conditions and such modifications as it shall find to be just and reasonable, the proposed transaction is within the scope of subparagraph (a) and will be consistent with the public interest, it shall enter an order approving and author-

izing such transaction, upon the terms and conditions, and with the modifications, so found to be just and reasonable: *Provided*, That if a carrier by railroad subject to this chapter, or any person which is controlled by such a carrier, or affiliated therewith within the meaning of paragraph (6), is an applicant in the case of any such proposed transaction involving a motor carrier, the Commission shall not enter such an order unless it finds that the transaction proposed will be consistent with the public interest and will enable such carrier to use service by motor vehicle to public advantage in its operations and will not unduly restrain competition.

. . . . .

“(11) The authority conferred by this section shall be exclusive and plenary, and any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall have full power (with the assent, in the case of a purchase and sale, a lease, a corporate consolidation, or a corporate merger, of a majority, unless a different vote is required under applicable State law, in which case the number so required shall assent, of the votes of the holders of the shares entitled to vote of the capital stock of such corporation at a regular meeting of such stockholders, the notice of such meeting to include such purpose, or at a special meeting thereof called for such purpose) to carry such transaction into effect and to own and operate any properties and exercise any control or franchises acquired through said transaction without invoking any approval under State authority; and any carriers or other corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the anti-trust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the trans-



action so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchises acquired through such transaction. Nothing in this section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter under the laws of any State."

The Commission in its report and decision rendered June 29th, 1946, held that plaintiff was, by reason of the provisions of Section 5 of the Interstate Commerce Act, relieved of the requirements of the South Carolina constitutional and statutory provisions requiring separate incorporation in South Carolina or consolidation with a South Carolina corporation thereby becoming a corporation of said State, because compliance with such requirements would be contrary to the Transportation policy of Congress as announced in the Interstate Commerce Act as amended by Transportation Act of 1940 and such compliance would operate as an undue burden upon interstate commerce.

5. On or about the 6th day of August 1946 plaintiff applied to the defendant W. P. Blackwell as Secretary of the State of South Carolina for admission to do business in South Carolina as a foreign corporation pursuant to Sections 7765, 7766 and 7767 of the Code of South Carolina, 1942, by tendering to him for filing a written statement or declaration in due form together with all copies of statements as well as fees required by the said sections. At the same time plaintiff exhibited to the Secretary of the State a certified copy of the report and order of the Interstate Commerce Commission and explained by letter handed to him at the same time that thereby plaintiff was lawfully re-



lieved from compliance with the provisions of the Constitution and statutes of South Carolina hereinbefore set forth requiring plaintiff to become a corporation of South Carolina. The defendant Secretary of State declined to accept said documents relying upon the provisions of Section 8 of Article 9 of the Constitution of South Carolina and the Sections of the South Carolina Code of 1942 above referred to.

The said statutes of South Carolina provide no method by which plaintiff could test in advance the validity as to plaintiff of Section 8 of Article 9 of the Constitution of South Carolina and of Sections 7777, 7778, 7779, 7784, 7785, and 7789 of the Code of South Carolina, 1942. Accordingly, plaintiff was confronted with the dilemma of either disobeying the order of the Interstate Commerce Commission and failing to perform its public duties as a common carrier in South Carolina or of subjecting itself to the danger of repeated suits in thirty different counties for the recovery of fines and penalties imposed by Section 7784 and 7789.

Since the railroad lines owned and operated by plaintiff in South Carolina lie in thirty separate counties in the State, the aggregate of the penalties would be Fifteen Thousand Dollars (\$15,000.00) a day and almost Five and One-Half Million Dollars (\$5,500,000.00) a year.

6. Thereupon on the 7th day of August 1946 plaintiff presented its complaint in the original jurisdiction of the Supreme Court of South Carolina the court of last resort of said State alleging the invalidity of the constitutional and statutory provisions of South Carolina hereinbefore referred to, asserting the right of plaintiff to operate its system of railroads in South Carolina without becoming a corporation of said State and praying that a writ of mandamus be issued to the Secretary of State requiring him to accept qualification of plaintiff as a foreign corpora-

tion and praying also that the defendant John M. Daniel as Attorney General of South Carolina be restrained and enjoined from enforcing the penalties provided by the South Carolina statutes for non-compliance with the requirements that plaintiff become a corporation of South Carolina as a condition to its right to own and operate its properties in said State.

The complaint asserted:

(a) That the aforesaid constitutional and statutory provisions of South Carolina are in conflict with the provisions of Section 5 of the Interstate Commerce Act and with the decision and order of the Commission issued pursuant to the authority conferred on it by such Act;

(b) The said constitutional and statutory provisions are invalid for the additional reason that they prohibit a railroad corporation from operating in South Carolina without separate incorporation or consolidation with a South Carolina corporation thereby becoming a corporation of said State even in interstate commerce. The said constitutional and statutory provisions are not confined to prohibition against operation in intrastate commerce but indiscriminately prohibit any operation at all without compliance with said provisions. Said provisions are therefore void as constituting in and of themselves a burden on interstate commerce in violation of Clause 3 of Section 8 of Article 1 of the Constitution of the United States and moreover deprive plaintiff of its property without due process of law and deny to plaintiff the equal protection of the laws in violation of the Fourteenth Amendment to the said Constitution of the United States.

(c) Plaintiff also asserted in its complaint and in its brief in the said Supreme Court of South Carolina that the Interstate Commerce Commission, in the exercise of its

powers conferred upon it by Section 5 of the Interstate Commerce Act could validly confer and did confer authority upon plaintiff to acquire, own and operate its railroad properties in South Carolina as a common carrier in interstate commerce, without compliance with the constitutional and statutory requirements of South Carolina, regardless, and without the necessity of any finding or decision by the Commission that compliance by plaintiff with said constitutional and statutory provisions would impose an undue burden upon interstate commerce.

7. Upon presentation of the complaint the court entered an order dated August 7th, 1946, directing the complaint to be filed, accepting jurisdiction, and restraining the defendant John M. Daniel as Attorney General of the State of South Carolina from enforcing or attempting to enforce Section 7784 or Section 7789 of the Code of South Carolina against plaintiff or collecting or attempting to collect any penalties above described from plaintiff pending further order of the court.

The Federal questions sought to be reviewed on this appeal were raised fully by complaint of plaintiff, by the answer of the defendants to the complaint and by the demurrer of plaintiff to the answer. The case was submitted to the Supreme Court of South Carolina alone on the complaint of plaintiff, the answer of the defendants and the demurrer to the answer and was finally decided by the State Supreme Court on the issues made by those pleadings. No evidence was introduced. The material facts alleged in the complaint were not disputed or denied by the answers and the issues created by the pleadings were and are solely issues of law.

The opinion of the Supreme Court of South Carolina, annexed hereto, squarely decided the Federal questions presented by the complaint of the plaintiff, the answer of

the defendants, and the demurrer to the answer, and held adversely to the claims of Federal right asserted by plaintiff, and denied the right and privilege specially set up and claimed under the Interstate Commerce Act as amended and under the order of the Interstate Commerce Commission hereinbefore referred to, made pursuant to Section 5 of said Act.

The opinion of the Supreme Court of South Carolina is also in direct conflict with the decision of this Court in *Texas v. United States*, 292 U. S. 522, respecting the power conferred on the Interstate Commerce Commission by Section 5 of the Interstate Commerce Act as amended and such conflict should be resolved.

The cases believed to sustain jurisdiction of the Supreme Court of the United States on this appeal are: *Western Turf Assn. v. Greenberg*, 204 U. S. 359; *Charleston Federal Savings & Loan Assn. v. Alderson*, 324 U. S. 182; *Senn v. Tile Layers Protective Union, Local No. 5*, 301 U. S. 468; *Commonwealth of Virginia v. Imperial Coal Sales Co.*, 293 U. S. 15; *Steele v. Louisville & Nashville R. Co.*, 323 U. S. 192; *Municipal Investors Assn. v. City of Birmingham*, 316 U. S. 153; *Miller v. Schoene*, 276 U. S. 272; *Nashville, Chattanooga & St. Louis Ry. Co. v. Wallace*, 288 U. S. 249; *Home Insurance Co. v. Dick*, 281 U. S. 397; *Brotherhood of Railroad Trainmen v. Terminal Railroad Assn. of St. Louis*, 318 U. S. 1; *Alabama & V. Railway Co. v. Jackson & E. Railway Co.*, 271 U. S. 244; *United States v. New York Central R. Co.*, 272 U. S. 457; *Texas v. United States*, 292 U. S. 522; *Donald v. Philadelphia & R. C. & O. Co.*, 241 U. S. 329; *Ex Parte Young*, 209 U. S. 123.

8. The way in which the Federal questions were passed upon by the Supreme Court of South Carolina was that the Court took briefs and oral arguments of counsel for the parties upon the issues made by the pleadings and on

August 29th, 1947, rendered its written opinion and final judgment, a copy of which is annexed to this statement as Exhibit A, holding that plaintiff was not entitled to the relief prayed for and ordering that the complaint be dismissed.

9. The grounds upon which it is contended that the questions on this appeal are substantial are as follows:

Plaintiff relies upon the decision and order of the Interstate Commerce Commission authorizing it to acquire, own and operate its properties in South Carolina without compliance with the constitutional and statutory requirements of that State hereinbefore set forth. Plaintiff promptly took the necessary steps to assert the rights granted by the Commission pursuant to its authority under Section 5 of the Interstate Commerce Act and to protect such rights by the institution of suit in the Supreme Court of South Carolina. The steps adopted for the assertion and protection of such rights were orderly and timely and without such steps plaintiff would have subjected itself to repeated suits for penalties under the South Carolina law and remained in uncertainty as to its status under the order of the Commission. The issues and questions raised by the suit involve directly the scope and interpretation of Section 5 of the Interstate Commerce Act and the power of the Interstate Commerce Commission, regardless of the Constitution and statutes of South Carolina, to authorize plaintiff to own and operate its railroad properties in South Carolina as a common carrier in interstate commerce.

Such issues and questions also involve the constitutional right of plaintiff under the Commerce Clause of the Federal Constitution, and apart from any affirmative authority from the Interstate Commerce Commission, to operate its railroad properties in South Carolina without becoming a corporation of said State.



If the plaintiff's contentions are correct, the State constitutional and statutory provisions are void and unenforceable as in conflict with the Federal Constitution and the provisions of Section 5 of the Interstate Commerce Act and also because the State law in prohibiting a common carrier by railroad from operating in interstate commerce without becoming a corporation of South Carolina is void as an undue burden upon interstate commerce. If the decision and judgment of the Supreme Court of South Carolina is correct, the Interstate Commerce Commission exceeded its powers under the Act. The complications, burdens, and expense incident to compliance by plaintiff with the South Carolina laws are described in the report and decision of the Commission. It is therefore in the public interest that the grave and important questions of constitutional law presented by this record be decided by the Supreme Court of the United States.

Respectfully submitted,

J. B. S. LYLES,

W. R. C. COCKE,

*Attorneys for Plaintiff-Appellant.*

**EXHIBIT A****THE STATE OF SOUTH CAROLINA, IN THE  
SUPREME COURT****SEABOARD AIR LINE RAILROAD COMPANY,***Plaintiff,***vs.****JOHN M. DANIEL, as Attorney General of the State of South  
Carolina, and W. P. BLACKWELL, as Secretary of State  
of the State of South Carolina,***Defendants***In the Original Jurisdiction****Case No. 2807****Opinion No. 15984****Filed August 29, 1947****Complaint Dismissed**

W. R. C. Cocks, of Norfolk, Va., and J. B. S. Lyles, of  
Columbia, for plaintiff.

Attorney General John M. Daniel and Assistant Attor-  
neys General M. J. Hough and T. C. Callison, for defendants.

FISHBURNE, A.J.: On June 28, 1946, the Interstate Com-  
merce Commission, acting under the authority purportedly  
conferred upon it by Section 5 of the Interstate Commerce  
Act (49 U. S. C. A. 5), issued its report and order upon  
the application of the Seaboard Air Line Railroad Company,  
hereinafter referred to as the new company, authorizing it  
to purchase and reorganize the Seaboard Air Line Railway  
Company, sometimes referred to as the old company, which  
had been in receivership since 1930. The Commission fur-  
ther ordered that the Seaboard Air Line Railroad Com-  
pany, a Virginia corporation, could operate its railroad  
lines and other properties in South Carolina without com-  
plying with Section 8 of Article IX of the state Constitution  
and with Sections 7777 through 7779 of the Code, which

prohibit a foreign corporation from acquiring or operating a railroad in this state without first incorporating and obtaining a charter.

It was affirmatively ordered that the delay and expense which would be incurred should the reorganized railroad company undertake to comply with the Constitution and statutes of South Carolina as to incorporation, would not accord with the national transportation policy, would burden interstate commerce, and would not be consistent with the public interests.

Shortly after the filing of the Commission's order, this action was brought by the plaintiff in the original jurisdiction of this court, by permission duly granted, praying three distinct forms of relief:

(1) A declaratory judgment adjudging that plaintiff is entitled to operate its railroad lines through South Carolina without complying with the constitutional provisions and the applicable statutory laws of the state;

(2) For an order of mandamus directed to the secretary of state requiring him to accept and file certain documents tendered by the plaintiff under the general corporation law covered by Sections 7765 and 7766 of the Code, which authorize a foreign corporation, other than a railroad company, to do business in South Carolina,

(3) An injunction against the attorney general restraining him from enforcing or attempting to enforce the provisions of Section 7784 or Section 7789 of the Code under which sections a railroad company is penalized for its failure to comply with the constitution and the laws of the state relating to incorporation.

In the order allowing the institution of this action in the original jurisdiction of the court, the attorney general was restrained, pending the further order of the court, from enforcing or attempting to enforce the penalty provisions of the Code above referred to, applicable when a railroad company fails to comply with those sections relative to obtaining a charter in this state.

The defendants, who are constitutional officers of the state of South Carolina, assail the order of the Interstate

Commerce Commission as transcending the power granted to the Commission by the Congress under the Interstate Commerce Act. They filed an answer and return raising this issue, and the plaintiff filed a demurrer to the answer. The case now comes before us on issues raised by the pleadings.

The major issue presented is whether the report and order of the Interstate Commerce Commission is valid and effective under Section 5 of the Interstate Commerce Act to relieve the plaintiff from compliance with the constitutional and statutory provisions of South Carolina which prohibit a foreign railroad company from acquiring and operating a railroad in this state without first obtaining a charter. And, further, did the Interstate Commerce Commission go beyond its jurisdiction and into a field into which it was not directed by the Act of Congress, in undertaking to say in what state a railroad corporation should be chartered, and in what state it should not be chartered, regardless of the constitution and statutes of any particular state. There are subsidiary questions, but a determination of the main issue will dispose of the case.

The plaintiff, under the order of the Interstate Commerce Commission, is the successor in ownership and operation of the properties of the old company which constitute an extensive railroad system, comprising approximately 4200 miles of railroad lines within and through the states of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama. Plaintiff acquired these railroad lines pursuant to the plan of reorganization approved by the Commission, and since such acquisition has been operating them as a common carrier of freight and passengers by railroad.

Included in such properties now owned and operated by the plaintiff are 736 miles of railroad located within and through thirty counties of the state of South Carolina, which embrace several of its main trunk lines. In addition, plaintiff owns over 600 miscellaneous separate tracts of real estate situated in the state of South Carolina which are appurtenant to and used or useful in connection with the operation of its system of railroads.

As stated, the plaintiff is a corporation of Virginia. It appears from the record that the states of North Carolina,

Georgia, Alabama, and Florida, do not require foreign railroad companies to incorporate. Railroad companies operate within their boundaries as foreign corporations, but are not compelled to obtain a charter therein. The plaintiff knew when it applied to the Interstate Commerce Commission under the plan of reorganization to purchase and operate the railroad system of the old company through South Carolina and the other named states, that it would be required to become a corporation of South Carolina under the constitution and laws of this state. Notwithstanding this, plaintiff made its application to the Commission alleging that it was advised that it would have power to acquire and operate the railroad system of the old company in South Carolina irrespective of the constitutional and statutory requirements—if such acquisition and operation should be authorized by the Interstate Commerce Commission.

The following statement is found in the report and order of the Interstate Commerce Commission:

“It would clearly be an unnecessary and undue burden on interstate commerce for the new company to be subjected to continuing expenses of over \$300,000 a year to maintain a separate corporation to own and operate the railroad in South Carolina. It is not so clear, however, that the cost of organizing a corporation under the laws of South Carolina to acquire the properties in that state and thereafter consolidate the South Carolina corporation with the Virginia corporation, viz, \$71,800, or the cost of maintaining the consolidated corporation as a South Carolina corporation, viz, \$1,000 a year, would be unduly burdensome. Organization of a South Carolina corporation, and consolidation with the Virginia corporation, however, would cause substantial delay and needless expense.”

The Commission went on to find:

“The provisions of Section 5 were further amended by the Transportation Act of 1940 which contains a declaration of the national transportation policy. The provisions as to relief from restraints, limitations and prohibitions of state law which would stand in the way of execution of the policy



of Congress were clarified and strengthened. In administering the provisions of Section 5 and other provisions of the Act we must do so with a view to carrying out the declared policy of Congress, including the promotion of economical and efficient service and the fostering of sound economic conditions in transportation. Corporate simplification wherever possible is in accord with this policy. Furthermore, a termination of a long-standing receivership of railroad properties is always a matter of substantial public interest. The delays that would result and the needless expense that would be incurred should the new company undertake to comply with the constitution and statutes of South Carolina requiring the creation of a separate corporation to acquire, or to acquire and operate, the railroad which the new company proposes to acquire and operate in that state would not accord with the national transportation policy and would not be consistent with the public interest."

It is conceded that this court has jurisdiction to determine whether the order of the Commission was a valid or invalid exercise of power under Section 5 of the Interstate Commerce Act.

The supremacy of congressional legislation over the entire subject of interstate commerce and its instrumentalities has been upheld in numerous cases. Among them may be cited the following: *Houston E. & W. T. R. Co. v. United States*, 234 U. S. 342, 58 L. Ed. 1341; *Alabama and V. Ry. Co. v. Jackson and E. Ry. Co.*, 271 U. S. 244, 46 S. Ct. 535; *Texas v. United States*, 292 U. S. 522, 54 S. Ct. 819; *Morgan v. Commonwealth of Virginia*, 328 U. S. 373, 90 L. Ed. 1317, 66 S. Ct. 1050, 165 A. L. R. 574.

The defendants raise no question as to the constitutional power of the Congress to confer authority upon the Commission to approve the purchase and reorganization of the old Seaboard Air Line Railway Company. The question here has to do simply with the scope of the authority which has been conferred.

The statutory provisions are found in Section 5 of the Interstate Commerce Act, Paragraph 11, and are as follows:

"The authority conferred by this section shall be exclusive and plenary, and any carrier or corporation partici-

participating in or resulting from any transaction approved by the Commission thereunder, shall have full power (with the assent, in the case of a purchase and sale, a lease, a corporate consolidation, or a corporate merger, of a majority, unless a different vote is required upon applicable state law, in which case the number so required shall assent, of the votes of the holders of the shares entitled to vote of the capital stock of such corporation at a regular meeting of such stockholders, the notice of such meeting to include such purpose, or at a special meeting thereof called for such purpose) to carry such transaction into effect and to own and operate any properties and exercise any control or franchises acquired through said transaction without invoking any approval under state authority; and any carriers or other corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the anti-trust laws and of all other restraints, limitations and prohibitions of law, Federal, State, or municipal insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchise acquired through such transaction. Nothing in this section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any state."

Under the foregoing provisions, any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall be relieved from the operation of: (a) the anti-trust laws, and (b) all other restraints, limitations and prohibitions of law, Federal, State or municipal *insofar as may be necessary* to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, manage, and

operate any properties and exercise any control or franchise acquired through such transaction.

We think it clear from the whole quoted section that the prohibition against the creation, directly or indirectly, of a federal corporation likewise excluded any power to control, limit or prohibit incorporation under state laws. And it follows that no power was conferred upon the Commission to say in what state or states a railroad company may be incorporated or not incorporated. The Act says that any power granted to any carrier "shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any state." The Commission has undertaken to say, in this transaction whereby the plaintiff has acquired the properties of the old company, that the constitution and laws of South Carolina regarding incorporation may be overridden and disregarded when no such explicit authorization was granted by the Congress.

No case directly in point has been called to our attention. The case relied upon strongly by the plaintiff, which it is asserted most nearly approximates the facts in the instant case, is *Texas v. United States*, 292 U. S. 522, 54 S. Ct. 819. In that case the court held that the Interstate Commerce Commission, in the exercise of the authority conferred upon it by Section 5 of the Interstate Commerce Act, as amended by the Emergency Railroad Transportation Act, 1933, was empowered to approve a lease of the property of one railroad company to another which permitted the lessee to abandon or to remove from the state of the lessor's incorporation the railroad shops and offices, where a marked saving would result from such abandonment or removal.

It was stated that this approval was authorized notwithstanding a statute of the state of Texas requiring the lessor to retain its general offices within the state, and forbidding it from changing the location of its general offices, machine shops, or round houses save with the consent and approval of the state railroad commission. In the Texas case the question was not involved as to whether or not a railroad company must obtain a charter from Texas to operate therein. The question as to what state or states should grant charters to the railroads operating in Texas was not

raised. The Commission had to deal only with the physical operation of the railroad as such operation might relate to the best interest of commerce and to insure adequate transportation service.

The Interstate Commerce Act not only fails to specifically grant authority to the Commission to deal with the matter of charters, but it may be inferred, as we have pointed out, from the language used that the purpose of congress was to prohibit the Commission from directly or indirectly determining what state or states a railroad company should be incorporated in.

Unquestionably, the Commission acted within the scope of its authority in passing upon and approving the details of the reorganization plan of the Seaboard Air-Line Railway, its method of financing, and whether the reorganization plans were for the best interest of interstate commerce. But it is far from clear that the Act conferred upon it the power to discriminate, in effect, against any state or states by adjudging in what state a charter should be granted.

The plaintiff contends that to comply with the statutes of South Carolina and the constitutional provision requiring that railroads operating in this state should obtain a charter, would impose an undue burden on interstate commerce.

As shown by the report and order of the Commission, the cost incident to obtaining a South Carolina charter is negligible as compared with the millions of dollars in value of the physical properties and the millions of dollars of income owned and controlled by the plaintiff. It might be inconvenient or undesirable to obtain a South Carolina charter, but we do not see how such requirement would constitute a burden on interstate commerce.

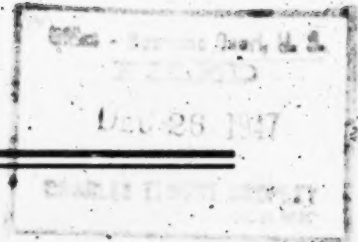
Holding as we do that the Interstate Commerce Commission lacked the power under Section 5 of the Interstate Commerce Act to authorize the plaintiff to operate its railroad lines in this state without first obtaining a charter, it necessarily follows that the complaint should be dismissed and the restraining order heretofore granted revoked.

It is so ordered.

Baker, CJ., Stukes, Taylor and Oxner, JJ., concur.



FILE COPY



# Supreme Court of the United States

OCTOBER TERM, 1947

No. 390

SEABOARD AIR LINE RAILROAD COMPANY,  
*Appellant,*

*vs.*

JOHN M. DANIEL, as Attorney General of the State of  
South Carolina, and W. P. BLACKWELL, as Secretary  
of State of South Carolina, (  
*Appellees.*

APPEAL FROM THE SUPREME COURT OF THE STATE OF  
SOUTH CAROLINA

## BRIEF FOR APPELLANT

✓ W. R. C. COCKE,

✓ J. B. S. LYLES,

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# Supreme Court of the United States

OCTOBER TERM, 1947

SEABOARD AIR LINE RAILROAD COMPANY,  
*Appellant,*

*vs.*

JOHN M. DANIEL, as Attorney General of  
the State of South Carolina, and W. P.  
BLACKWELL, as Secretary of State of  
South Carolina,

*Appellees.*

No. 390

APPEAL FROM THE SUPREME COURT OF THE STATE OF  
SOUTH CAROLINA

## BRIEF FOR APPELLANT

### I

#### Opinion Below

The opinion of the court below (R. 155) is reported in 43 Southeastern (2nd) p. 839. It has not yet appeared in the South Carolina Reports.

### II

#### Grounds of Jurisdiction

This appeal is taken pursuant to Section 237 of the Federal Judicial Code as amended (Title 28 U. S. C. A.

Sec. 344) from a final judgment of the Supreme Court of South Carolina, the highest court of that state, where there was drawn in question the validity of Section 8 of Article 9 of the Constitution of South Carolina and of Sections 7777-7779 inclusive and Sections 7784, 7789 of the Code of Laws of South Carolina (1942) on the ground of their being repugnant: (1) To a law of the United States, viz., Section 5 of the Interstate Commerce Act as amended; and (2) To the commerce clause of the Federal Constitution and to the due process and equal protection clauses of the Fourteenth Amendment thereto. The judgment appealed from was in favor of the validity of the State law.

### III

#### Statement of the Case

Appellant, Seaboard Air Line Railroad Company (hereinafter sometimes referred to as the New Company), is a corporation organized and existing under the laws of the State of Virginia, and is a common carrier by railroad subject to the provisions of the Acts of Congress relating to interstate commerce. It is the successor in ownership and operation of the properties of Seaboard Air Line Railway Company (hereinafter referred to as the Old Company), an interstate railroad system comprising approximately 4200 miles of railroad lines in the States of Virginia, North Carolina, South Carolina, Georgia, Florida, and Alabama. Included in the properties acquired and now owned and operated by the New Company are 736 miles of railway main lines located in thirty counties in the State of South Carolina lying between and connecting with various points on the system in North Carolina and Georgia. In addition

the New Company acquired and owns over 600 separate tracts of miscellaneous real estate in South Carolina which are appurtenant to or are used or usable in connection with the operation of said system of railways. (R. 4, 140)

Section 8, Article 9 of the Constitution of South Carolina, and Sections 7777, 7778 and 7779 of the Code of South Carolina, 1942, all shown in the appendix to this brief, prohibit the ownership or operation of any railroad in South Carolina except by a railroad corporation created under the laws of that state. The Interstate Commerce Commission (hereinafter referred to as the Commission) found in appropriate proceedings and upon the evidence adduced that it would not accord with the national transportation policy and would not be consistent with the public interest and would impose an unnecessary and undue burden on interstate commerce to require the creation of a separate South Carolina corporation to acquire or to acquire and operate the properties of the Appellant located in that state (R. 108-113). The Commission also found affirmatively that the purchase by the Appellant of the railroad properties and other assets of the Old Company, and the operation thereof by Appellant in the State of South Carolina, were transactions within the scope of Section 5(2) of the Interstate Commerce Act as amended, and would be consistent with the public interest (R. 116).

The Supreme Court of South Carolina made its own finding (contrary to that made by the Commission) that the South Carolina requirements did not constitute a burden on interstate commerce and held, in substance, that even if they did, the Commission lacked the power under Section 5 of the Interstate Commerce Act to authorize the Appellant to operate its railroad lines in the State of South

Carolina without first obtaining a charter in accordance with the laws of that State (R. 162).

The properties of the Old Company were burdened with 18 separate mortgages securing outstanding bonds, and it had numerous wholly owned and partly owned subsidiaries, and leased lines (R. 67), resulting in an extraordinarily complex corporate and financial structure. The Reorganization Plan of the Old Company (hereinafter called the Plan) provided, among other things, that the proceedings for the foreclosure of the various mortgages should be expeditiously matured, that a Reorganization Committee should be appointed to carry out the Plan and to receive deposits of the securities of the Old Company, and that the Reorganization Committee should bid for the properties at the sale or sales under foreclosure and, if the successful bidder, should convey the properties to a new company to be organized for the purpose (R. 67) and it contemplated "a single new system subject to new consolidated system mortgages and the elimination of all prior liens" (R. 67). The general offices of the railroad and a substantial part of its properties were located in Virginia and it appeared logical and proper to the Reorganization Committee to select Virginia as the state of incorporation to avoid the expense and complexities inevitably connected with a multiple corporation, and the subsequent incorporation of the New Company on January 26, 1944, as a Virginia corporation was duly approved by the Courts.\*

In order to consummate the Plan it was necessary to have authority from the Interstate Commerce Commission

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\*If the Reorganization Committee had selected South Carolina as the state of incorporation similar problems would have been presented, under the provisions of Section 163 of the Virginia Constitution (Virginia Code, 1942, Vol. 2, p. 2865).

under both Section 20a and Section 5 of the Interstate Commerce Act, and appropriate applications were filed by the New Company. The application under Section 20a was assigned Finance Docket No. 14500, and the application under Section 5 was assigned Finance Docket No. 14501. The report and order of the Commission dated June 28, 1946, which contains the findings and authorization involved in this appeal, embraced the proceedings in both Finance Dockets 14500 and 14501 (R. 59-134). The report discusses the limitations and prohibitions of the South Carolina laws (R. 108-113) and sets out the text of the constitutional provision in a footnote (R. 109).

In Finance Docket No. 14501 (under Section 5) applicant, on January 31, 1946 (R. 21) filed its Supplemental Application and Amendment No. 2 (R. 22-56), in which it specifically set forth that it did not propose to become a corporation of South Carolina, as well as of Virginia, and alleged that compliance with the requirements of South Carolina would constitute a substantial burden upon interstate commerce (R. 41), and in which it specifically prayed that the Commission authorize the acquisition of the properties by the New Company "as requested in the application, as amended and supplemented, including, specifically, the acquisition and operation of properties in South Carolina without becoming a domestic corporation of said state" (R. 42). No clearer or more specific notice of the authority requested in this connection could have been given, and as required by Section 5(2)(b) of the Interstate Commerce Act, the Commission duly notified the Governor of South Carolina of the pendency of that application (R. 5, 141). At the hearings thereon Appellant introduced substantial evidence in support of its contention respecting the burdens



which would be imposed, and no representative of the State of South Carolina appeared and there was no opposition on that ground to the making of the order requested of the Commission. The report and order of the Commission is no longer subject to review.

Subsequently to the Report and Order of the Commission, Appellant on August 1, 1946 acquired the properties of the Old Company, and proceeded to operate them, and issued its securities as provided for in the Plan (R. 4). On August 6, 1946, appellant applied to the appellee, W. P. Blackwell, Secretary of the State of South Carolina with a tender of the proper fees, for admission to do business in South Carolina as a foreign corporation pursuant to Sections 7764-7767 of the Code of South Carolina, 1942, which admit foreign corporations generally and contain no exception, in terms, with respect to railroad corporations. This tender, which appears in the record (R. 134) was accompanied by a certified copy of the report and order of the Commission. The Secretary of State refused to accept and file the papers because of and in reliance on Section 8 of Article 9 of the Constitution and Sections 7777-7779 of the Code of South Carolina (R. 142).

Although it is not necessary for this Court to consider the question, the Appellant alleged and still contends that if its tender of compliance with the general law respecting foreign corporations had been accepted it would have become subject to the local laws of the State of South Carolina in all respects, including the police and taxing powers of the state, in the same manner as any other foreign corporation admitted to do business therein, and that it would have no special privileges or prerogatives (R. 16). The answer of the Respondent contained a denial of that contention.

(R. 144). This Court, however, is not concerned with that issue. Appellant submits that this Court should reverse the decision and judgment of the Supreme Court of South Carolina in so far as that Court held that the order of the Commission was in excess of the power conferred by Section 5, and should direct the Supreme Court of South Carolina to take further proceedings in accordance with the opinion of this Court. Appellant does not seek to have this Court pass upon that part of its complaint in the Court below which sought an order of mandamus directed to the Secretary of State. The precise manner in which the Appellant will be permitted to comply with the applicable laws of the State of South Carolina is a matter of local concern. The Commission itself pointed out in its findings that (R. 113):

“The provisions of section 5(11) will relieve the new company of the restraints, limitations and prohibitions of State law only insofar as may be necessary to enable it to carry into effect the transactions approved and provided for, in accordance with the terms and conditions which we impose, and to hold, maintain, and operate any properties, and exercise any control or franchises acquired through such transactions”.

That tender of compliance with the laws of the State of South Carolina applicable generally to foreign corporations, is still in effect.

The prohibition against ownership, unless the exercise of the Commission's power has made that prohibition ineffectual, would invalidate the title of the New Company to its properties in South Carolina, which were a substantial part of the consideration for the issuance of its securities,

and which are a substantial part of the properties subject to the liens of its mortgages and the securities underlying its bonds. In addition Sections 7784 and 7789 of the Code of South Carolina, 1942, provide penalties for operation by a foreign railroad corporation in the state without complying with its constitutional and statutory provisions requiring incorporation in South Carolina. The penalty prescribed is the forfeiture of \$500 for each county in which the prohibited operation occurs, to be recovered in the court of common pleas of such county. Appellant operates in thirty counties in that state.

The statutes of South Carolina provided no method by which Appellant could test in advance the validity as to it of the prohibitions and penalties of the South Carolina constitution and statutes, so that compliance with the order of the Commission, after the refusal of the tender of compliance with the general law respecting foreign corporations, would have subjected Appellant to the danger of repeated suits in thirty different counties for the recovery of such penalties. Accordingly, upon the refusal of the Appellee, Secretary of State, to permit Appellant to qualify as any other foreign corporation for business in South Carolina, appellant brought this suit in the original jurisdiction of the Supreme Court of South Carolina. Upon the filing of the suit, the Chief Justice of the Court issued a restraining order against the appellee Attorney General, prohibiting him *pendente lite* from enforcing the penalty provisions of the South Carolina statute (R. 1).

The complaint (Rec. pp. 2-18) set up the foregoing facts, alleged the right of Appellant to acquire, own and operate the railroad properties in South Carolina under authority of the provisions of Section 5 of the Interstate

Commerce Act and of the order of the Commission, and asserted the invalidity of the prohibitions of Section 8 of Article 9 of the Constitution, and of Sections 7777-7779 and Section 7784 of the Code of South Carolina, as in conflict with the rights of Appellant under the Commerce Clause and under the Fourteenth Amendment.

As the South Carolina practice permitted the Appellant to seek in the same complaint both injunctive relief against enforcement of the penalties by the state attorney general on the ground of the invalidity of the state prohibition against ownership and operation of a railroad by a foreign corporation, and also mandamus directed to the Secretary of State requiring him to permit Appellant to qualify for business in South Carolina, as permitted to foreign corporations generally, the prayer of the complaint sought relief in both these aspects (Prayer, R. p. 18).

The answer and return of the Appellees to the rule to show cause issued by the court to show why the Attorney General should not be enjoined from enforcing the South Carolina statutory and constitutional provisions (Rec. pp. 137-145) admitted all the facts necessary to a determination with respect to the validity of the order of the Commission, but challenged the power of the Commission to authorize Appellant to acquire, own and operate the properties of the Old Company in South Carolina without becoming a corporation of that state.

Appellant demurred to the answer (R. pp. 147-151), no evidence was introduced, and the case was heard solely upon the pleadings and upon the questions of law presented thereby.

Following original argument in November 1946, and reargument in March 1947, the Supreme Court of South

Carolina handed down its opinion and order, squarely upholding the validity of the South Carolina requirements, making its own finding that those requirements did not constitute a burden on interstate commerce, and holding that regardless of whether or not they did constitute a burden on interstate commerce, the Commission was without power under Section 5 of the Interstate Commerce Act to authorize Appellant to operate its railroad lines in South Carolina without first obtaining a charter, and that Court thereupon directed the dismissal of the Complaint (Opinion R. pp. 155-162), but, in its Order allowing this appeal, it continued in effect the temporary restraining order against the enforcement of the penalty provisions of the South Carolina statutes (R. 167-8).

#### IV

##### **Specification of Assigned Errors to be Urged**

The assigned errors intended to be urged are Nos. 1 to 7, and 9 to 11, inclusive (R. pp. 163-167).

#### V

##### **Summary**

1. Section 5 of the Interstate Commerce Act as amended by the Transportation Act of 1940 (49 U. S. C. A. Sec. 5; 54 Stat. 905) conferred plenary power upon the Interstate Commerce Commission to determine, as it did, that it was in the public interest for Appellant, a Virginia railroad corporation, and a common carrier subject to the Act of Congress regulating interstate commerce, to acquire, own and operate the interstate railway system of the Old Company in accordance with the Reorganization Plan.



Section 5(11) gave Appellant the power, upon approval by the Interstate Commerce Commission, to acquire, own and operate the Seaboard System, including the railroad lines and other properties in South Carolina, without compliance with the constitutional and statutory provisions of that state requiring incorporation therein. (Assignment of Errors Nos. 1, 2, 3, 4—R. pp. 163-164—Statement of Points Nos. 1, 2, 3—R. pp. 171-172.)

The constitutional and statutory provisions of South Carolina prohibiting a foreign railroad corporation from acquiring or operating a railroad in South Carolina are in direct and irreconcilable conflict with the power conferred upon Appellant by Section 5(11) of the Interstate Commerce Act, upon approval of the Interstate Commerce Commission, to acquire, own and operate the railroad lines and other properties in South Carolina. (Assignment of Errors Nos. 2, 3, and 4—R. pp. 163-164—Statement of Points Nos. 2 and 4—R. pp. 171-172.)

Section 5 of the Interstate Commerce Act (49 U. S. C. A. 5), paragraphs (2) (a) (1) (2) (c), (2) (d), (4) (a), (b), (11).

*Texas v. United States*, 292 U. S. 522, 78 L. Ed. 1402.

*In Re Mo. Pac. R. Co.*, 39 F. Supp. 436.

*In Re: New York N. H. & H. R. Co.*, 147 F. (2d) 40, cert. den. 325 U. S. 884, 89 L. Ed. 199.

*Colorado v. United States*, 271 U. S. 153, 70 L. Ed. 878.

→ *Alabama & V. R. Co. v. Jackson & E. R. Co.*, 271 U. S. 244, 70 L. Ed. 928.

*Minneapolis, St. P. & S. S. R. Co. v. Railroad Commission*, 183 Wis. 47, 197 N. W. 352.

*Chicago & E. I. Ry. v. Miller*, 309 Ill. 257, 140 N. E. 823.

*Whitman v. Northern Cent. Ry. Co.*, 146 Md. 580, 127 Atl. 112.

*In Re St. Louis Southwestern Ry. Co.*, 53 Fed. Supp. 914.

2. (a) The Commission made the affirmative finding (R. 116), in its Report issued June 28, 1946, approving the acquisition and operation by the Appellant of the railway system of the Old Company, that such acquisition and operation would be consistent with the public interest. It also found that compliance with the constitutional and statutory requirements of South Carolina that Appellant became a corporation of that state, would impose an undue burden upon interstate commerce and would be contrary to the transportation policy of Congress as announced in the Transportation Act of 1940 and would not be consistent with the public interest (R. 111-113). The latter findings, however, were not prerequisite to the exemption of Appellant from compliance with the South Carolina law, since Section 5(11) of the Act, by its terms, gives Appellant all powers needed for such acquisition, ownership and operation upon the finding by the Commission that such acquisition, ownership and operation is consistent with and in the public interest. (Assignment of Errors Nos. 4, 5, and 6—R. pp. 164-165; Statement of Points No. 3.)

See citations under 1 above and

*United States v. New River Co.*, 265 U. S. 533, 68 L. Ed. 1165.

*Ohio v. United States*, 292 U. S. 498, 78 L. Ed. 1388.

(b) If findings by the Commission with respect to the burdens imposed on interstate commerce are prerequisite to the exemption of Appellant from compliance with the South Carolina law, the necessary findings have been made, upon relevant evidence which afforded a basis for the informed judgment of the Commission, and neither a contrary finding by the State court nor the reserved powers of a state will validate state laws found by the Commission to burden interstate commerce or to be inconsistent with the national transportation policy.

*Southern Pacific Co. v. Arizona*, 325 U. S. 761, 89 L. Ed. 1915.

*Morgan v. Virginia*, 328 U. S. 373, 90 L. Ed. 1317.

*Securities and Exchange Commission v. Chenery Corporation*, 332 U. S. 194, 91 L. Ed. Adv. 1429.

*Freeman v. Hewitt*, 329 U. S. 249, 91 L. Ed. Adv. 205.

*Bethlehem Steel Co. v. New York Labor Relations Board*, U. S. , 91 L. Ed. 887.

3. Appellant is not only an instrumentality of interstate commerce within the dominant protection of Congress, but it is also an instrumentality of the Federal Government to carry its mails, properties and troops, and is therefore within the rule that a state may not constitutionally use its powers to exclude a foreign corporation from the trans-

action of business within its borders, if in so doing it denies a Federal right or prevents the performance of functions imposed by Federal authority. (Assignment of Errors 1, 5, 6, 7, 9 and 10—R. pp. 163-166; Statement of Points Nos. 2, 4, 5—R. pp. 171-172.)

*Looney v. Crane Co.*, 245 U. S. 178, 62 L. Ed. 230.

*Horn Silver Mining Co. v. New York*, 143 U. S. 305, 36 L. Ed. 164.

*Pensacola Tel. Co. v. Western Union Tel. Co.*, 96 U. S. 1, 24 L. Ed. 708.

*West v. Kansas Natural Gas Co.*, 221 U. S. 229, 55 L. Ed. 716.

*United States v. Ju Toy*, 198 U. S. 253, 49 L. Ed. 1040.

*Carter v. Carter Coal Co.*, 298 U. S. 238, 80 L. Ed. 1160.

*Harrison v. St. L. & S. F. R. Co.*, 232 U. S. 318, 58 L. Ed. 621.

*Bowman v Continental Oil Co.*, 256 U. S. 642, 65 L. Ed. 1139.

*Crutcher v. Kentucky*, 141 U. S. 47, 35 L. Ed. 649.

*Southern Ry. v. Tompkins*, 48 S. C. 49, 25 S. E. 982.

*C. C. & O. Ry. v. McCown*, 84 S. C. 318, 66 S. E. 418.

*Donald v. Philadelphia & Reading R. Co.*, 241

U. S. 329, 60 L. Ed. 1027.

*Buck v. Kuykendall*, 267 U. S. 307, 69 L. Ed. 623.

*Foster-Fountain Packing Co. v. Haydel*, 278

U. S. 1, 73 L. Ed. 147.

*Frost v. R. R. Commission*, 271 U. S. 583, 70 L. Ed. 1101.

*International Paper Co. v. Mass.*, 246 U. S.

135, 62 L. Ed. 624.

*Sprague v. Thompson*, 118 U. S. 90, 30 L. Ed. 115.

*International Textbook Co. v. Pigg*, 217 U. S.

91, 54 L. Ed. 678.

*Lynch v. U. S.*, 292 U. S. 571, 78 L. Ed. 1434.

*Williams v. Standard Oil Co.*, 278 U. S. 235, 73 L. Ed. 287.

*Stockton, Atty. Gen., v. Baltimore & New York R. Co.*, 32 Fed 9.

4. The South Carolina constitutional and statutory provisions are void in and of themselves as imposing an undue obstruction to and burden upon interstate commerce. They prohibit ownership and operation of any railroad even in interstate commerce, and do not attempt to confine the prohibition to ownership and operation in intrastate commerce, even if such a limited prohibition could, as to an interstate railway system whose operations in intrastate and interstate commerce are necessarily inextricably blended and intertwined, be valid. Not only for this reason, but because the South Carolina law prohibits not only operation but also ownership, the State law is incapable of being



construed as a prohibition confined alone to intrastate operation.

See citations under 3 above, and

*Essex v. New England Tel. Co.*, 239 U. S. 313,  
60 L. Ed. 301.

*Central Pacific R. Co. v. California*, 162 U. S.  
91, 40 L. Ed. 903.

5. The refusal of the State of South Carolina to admit Appellant to do business therein, denies to Appellant the equal protection of the laws, and deprives it of its property without due process of law, in violation of the Fourteenth Amendment of the Constitution of the United States, because other foreign corporations are freely admitted by South Carolina, and because Appellant is entitled to admission by virtue of the order of the Commission. There is no reasonable basis for such classification and discrimination. (Assignment of Errors No. 8—R. p. 166; Statement of Points No. 6—R. p. 172.)

*Liggett Co. v. Lee*, 288 U. S. 517, 77 L. Ed.  
929.

*Quaker City Cab Co. v. Pennsylvania*, 277  
U. S. 389, 72 L. Ed. 927.

*Power Mfg. Co. v. Saunders*, 274 U. S. 490,  
71 L. Ed. 1165.

## VI

## Argument

## (1)

**Section 5 of the Interstate Commerce Act Conferred Plenary Power upon the Interstate Commerce Commission to Authorize Appellant to Acquire, Own, and Operate the Properties of the Seaboard System in South Carolina Without Becoming a Corporation of that State.**

The Supreme Court of South Carolina does not question the power of Congress to give the Commission exclusive power to authorize Appellant to acquire, own and operate the properties, or the power of Congress to give Appellant the power to acquire, own, and operate without compliance with the South Carolina law. The Court simply held that by Section 5 of the Interstate Commerce Act Congress had failed to give such power. In its opinion (R. p. 159) the court said:

"The supremacy of congressional legislation over the entire subject of interstate commerce and its instrumentalities has been upheld in numerous cases."

The Supreme Court of South Carolina ordered a reargument for the sole purpose of hearing counsel on the question whether it had jurisdiction of the subject of the action (R. 153-155). The memorandum opinion ordering reargument and the final opinion (R. 155) both show a misapprehension with respect to the powers actually exercised by the Commission, and impute to the Commission an exercise of a power broader than was actually exercised in this case, and distort not only the language of Section 5

of the Interstate Commerce Act but also the report of the Commission.

In the opinion ordering reargument the Court below said that one of the questions argued before it was whether the Commission had not gone beyond its jurisdiction and into a field in which it was not directed by the Act of Congress "in undertaking to say in what state a railroad corporation should be chartered, and in what state it should not be chartered" (R. 154). In the subsequent opinion, the Court below repeated the same language (R. 157). It then said that (R. 159):

"The defendants raise no question as to the constitutional power of the Congress to confer authority upon the Commission to approve the purchase and reorganization of the old Seaboard Air Line Railway Company. The question here has to do simply with the scope of the authority which has been conferred."

The Court below then quoted at length the pertinent provisions of Section 5(11) of the Interstate Commerce Act, and reached the crux of its decision in the following sentences (R. 160, 162):

"We think it clear from the whole quoted section that the prohibition against the creation, directly or indirectly, of a federal corporation likewise excluded any power to control, limit or prohibit incorporation under state laws. And it follows that no power was conferred upon the Commission to say in what state or states a railroad company may be incorporated or not incorporated."

\* \* \*

"Holding as we do that the Interstate Commerce Commission lacked the power under Section 5 of the Interstate Commerce Act to authorize the plain-

tiff to operate its railroad lines in this state without first obtaining a charter, it necessarily follows that the complaint should be dismissed and the restraining order heretofore granted revoked.

"It is so ordered."

The first of the above quoted sentences is, of course, a clear *non-sequitur*. The prohibition against the creation of a Federal corporation has nothing whatsoever to do with the removal of restraints of state laws so far as may be necessary to carry into effect the transactions here approved by the Commission. The second sentence repeats the overstatement of the power exercised by the Commission, which, if it had been exercised, might be questionable, but which need not be considered here. The Court again repeats the same overstatement when it says that (R. 161), "it may be inferred, as we have pointed out, from the language used that the purpose was to prohibit the Commission from directly or indirectly determining what state or states a railroad company should be incorporated in", and that (R. 162), "it is far from clear that the Act conferred upon it [the Commission] the power to discriminate, in effect, against any state or states by adjudging in what state a charter should be granted."

The Commission had nothing to do with "adjudging" in what state the New Company should be incorporated. The Commission did not "say" in what state the New Company should be incorporated, nor did it discriminate against the State of South Carolina. The selection of the State of Virginia was made by the Reorganization Committee and approved by the Courts having charge of the receivership proceedings and was not made by the Commission. The Commission simply authorized Appellant to

carry out its functions and duties as a carrier without either multiple incorporation or operation through a subsidiary.

The sweeping and comprehensive language of Section 5, and in particular Paragraph (11), expressly and specifically gives the Commission power to authorize Appellant to acquire, own and operate the entire Seaboard System, including the railroads and other properties in South Carolina, and gives Appellant power to exercise such authority without becoming a corporation of South Carolina.

The manifest purpose of Section 5 was to assure that the Commission should have comprehensive and exclusive powers over the entire subject of the acquisition and control and right of operation of interstate commerce carriers. Thus 5(2)(a)(i) expressly makes it:

"lawful with the approval and authorization of the Commission \* \* \* for any carrier \* \* \* to purchase, lease, or contract to operate the properties \* \* \* of another."

Paragraph 5(2)(b) provides that when a transaction is proposed for the acquisition of railroad properties, the Commission shall notify the Governor of each state in which any part of the railroad properties is located, hold a public hearing, and afford interested parties a reasonable opportunity to be heard. If the Commission finds that the acquisition

"will be consistent with the public interest, it shall enter an order approving and authorizing such transaction."

Any question as to the exclusive and plenary nature of the power given to the Commission by Congress is removed by Paragraph 11, which provides that the power conferred shall be "exclusive and plenary;" that any carrier participating in any transaction approved by the Commission:



"shall have full power \* \* \* to carry such transaction into effect and to own and operate any property and exercise any control or franchises acquired through said transaction without invoking any approval under State authority;"

and that any carrier under such circumstances is:

"hereby relieved from \* \* \* all other restraints, limitations and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved \* \* \* and to hold, maintain and operate any properties, and exercise any control or franchises acquired through such transaction."

In its Report and Order of June 28, 1946 (R. 116) the Commission specifically found that:

"\* \* \* the purchase by the Seaboard Air Line Railroad Company of the railroad properties and other assets of the Seaboard Air Line Railway Company or its receivers, or both, and operation thereof in the States of Virginia, North Carolina, South Carolina, Georgia, Florida, and Alabama, \* \* \* are transactions within the scope of section 5(2) of the Interstate Commerce Act, as amended, that the terms and conditions proposed are just and reasonable, and that the transactions will be consistent with the public interest."

That finding of the Commission specifically includes operation by Seaboard Air Line Railroad Company of the properties in South Carolina. The Commission's finding is conclusive for all purposes and cannot now be questioned by the State of South Carolina or by anyone else. In the case of *United States v. New River Co.*, 265 U. S. 533, 68 L. Ed. 1165 this Court said:

"The courts will not review determinations of the Commission made within the scope of its powers, or substitute their judgment for its findings and conclusions."

The Commission's Order (R. 129) contains the following paragraph:

*"It is ordered, That, subject to the conditions with respect to the protection of employees stated in said report, the purchase by the Seaboard Air Line Railroad Company of the railroad properties and other assets of the Seaboard Air Line Railway Company or its receivers, or both, and the operation by the former of such railroads, including those operated under contract, lease, or agreement, and the acquisition of control or joint control by the Seaboard Air Line Railroad Company through ownership of capital stock of certain other railroad companies and the Baltimore Steam Packet Company, described in the report aforesaid, upon the terms and conditions in said report found just and reasonable, be, and it is hereby, approved and authorized."*

Paragraph (11) of Section 5 by its terms authorized Seaboard to exercise the authority so granted and relieves Seaboard from the operation of "all other restraints, limitations and prohibitions of law, Federal, State or municipal" in so far as necessary to enable it to carry out the Commission's Order.

This case is clearly ruled by *Texas v. United States*, 292 U. S. 522, 78 L. Ed. 1402, in which the court upheld the power of the Interstate Commerce Commission to authorize the Kansas City Southern Railway Company, a Missouri corporation, to acquire control by lease of the railroad and

properties of the Texarkana & Ft. Smith Railway Company, a Texas corporation. The State of Texas attacked the order of the Commission because the lease approved by the Commission permitted the lessee to abandon or remove from Texas the general offices, shop, etc., of the lessor as in violation of the Texas law which confined to Texas corporations the right to "own or maintain any railways" within the state, and required the company to maintain the offices of its principal officers and the location of its general offices, machine shops or roundhouses in the State unless otherwise approved by the State Railroad Commission. Upholding the power of the Commission under Section 5 of the Interstate Commerce Act to disregard the provisions of the Texas law, the court said:

"These broadening provisions of the Emergency Railroad Transportation Act 1933 confirm and carry forward the purpose which led to the enactment of Transportation Act 1920 (Title 4, 41 Stat. 474 et seq.) (49 U. S. C. A., §1 et seq.) We found that Transportation Act 1920 introduced into the federal legislation a new railroad policy, seeking to insure an adequate transportation service. To attain that end, new rights, new obligations, new machinery, were created. \* \* \* The authority given to the Commission to authorize consolidations, purchases, leases, operating contracts, and acquisition of control, was given in aid of that policy. \* \* \* The criterion to be applied by the Commission in the exercise of its authority to approve such transactions—a criterion reaffirmed by the amendments of Emergency Railroad Transportation Act 1933—is that of the controlling public interest. And that term as used in the statute is not a mere general reference to public welfare, but, as

shown by the context and purpose of the act, 'has direct relation to adequacy of transportation service, to its essential conditions of economy and efficiency and to appropriate provision and best use of transportation facilities.' \* \* \*

"In the present case, the findings of the Commission, setting forth undisputed facts, leave no doubt that the provision of the lease permitting the abandonment, or removal from the state, of general offices and shops of the lessor has direct relation to economy and efficiency in interstate operations, and to the achievement of the purpose which the Congress had in view in its grant of authority.

"\* \* \* The scope of the immunity must be measured by the purpose which Congress had in view and had constitutional power to accomplish. As that purpose involved the promotion of economy and efficiency in interstate transportation by the removal of the burdens of excessive expenditure, the removal of such burdens when imposed by state requirements was an essential part of the plan. The State urges that in the course of the passage of Transportation Act, 1920, a provision for federal incorporation of railroads was struck out. But while railroad corporations were left under state charters, they were still instrumentalities of interstate commerce, and, as such, were subjected to the paramount federal obligation to render the efficient and economical service required in the maintenance of an adequate system of interstate transportation. *Colorado v. United States*, 271 U. S. 153, 70 L. Ed. 878, 46 S. Ct. 452, *supra*."

The Supreme Court of South Carolina attempted to weaken the force of the *Texas* case by saying that the precise question was not there involved, but that is an incorrect analysis of the case. The State of Texas con-

tended that its laws prohibited ownership or operation of railways by a foreign corporation and this Court held that the Kansas City Southern (a Missouri corporation) could nevertheless operate in Texas, on the basis of Commission authority so to do under Section 5.

The *Texas* case was decided before the enactment of the Transportation Act of 1940, which substantially revised Section 5 of the Interstate Commerce Act. It is clear that the revision made by the Transportation Act of 1940 was intended primarily to make doubly certain that the Commission's power over all phases of acquisition of control of railroads and of acquisition and operation of railroad property should be absolute and exclusive, and that no restrictions of state law should be permitted to interfere with the public policy in those matters as determined by the Commission. That intention is particularly obvious from paragraph (11) of Section 5, which reads as follows:

"The authority conferred by this section shall be *exclusive* and *plenary*, and any carrier or corporation participating in, or resulting from, any transaction approved by the Commission thereunder, shall have full power \* \* \* \* \* to carry such transaction into effect, and to *own*, and *operate* any properties, and exercise any control or franchises, acquired through said transaction, *without invoking any approval under State authority*; and any carriers or other corporations \* \* \* \* \* participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the antitrust laws, and of *all other restraints, limitations, and prohibitions* of law, Federal, State, or municipal, in so far as may be necessary to enable them to carry into effect the transaction so approved or provided for \* \* \* \* \* and to *hold*,



*maintain, and operate any properties, and exercise any control or franchises acquired through such transaction."* (Emphasis supplied)

To make assurance doubly sure of the intention of Congress to exert complete and unqualified supremacy over acquisitions, the paragraph concludes that, while nothing contained therein shall be construed to create or provide for the creation of a Federal corporation, yet:

*"\* \* \* any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any State."* (Emphasis supplied)

The corresponding provision in effect before 1940 was paragraph 15, which read as follows:

*"The carriers and any corporation affected by any order made under the foregoing provisions of this section shall be, and they are hereby, relieved from the operation of the antitrust laws \* \* \* and of all other restraints or prohibitions by or imposed under authority of law, State or Federal, in so far as may be necessary to enable them to do anything authorized or required by such order"*.

That was the provision construed by the Supreme Court in the *Texas* case and even under that provision the Court had no doubt that the authority granted by the Interstate Commerce Commission was sufficient to override state restrictions including State requirements for local incorporations. Of course, the amended provision is much more specific on that point.

The Supreme Court of South Carolina apparently relied primarily on the provision of paragraph (11) negating the creation of a Federal corporation. That provision, however, has no bearing whatsoever on the question now before the Court. Congress might have chosen to accomplish its purpose by authorizing Federal incorporation of railroad corporations but the same purpose could be more easily accomplished by exercising the undoubted power of the Federal Government to give additional powers to corporations engaged in interstate commerce and organized under state laws. (See cases cited on page 36 to 40, below.)

The *Texas* case was cited as authority in *In Re Missouri Pacific R. Co.*, 39 F. Supp., 436 (June 20, 1941), in which the Court sustained the power of the Court and the Commission under Section 77(f) of the Bankruptcy Act to direct the acquisition and operation of the so-called Gulf Coast Lines in Texas by a Missouri corporation, despite the prohibitions of the Texas laws which provide that no corporation except one chartered under the laws of Texas should be authorized to operate a railroad in that state. The Court there said at page 448:

"Inconsistent State laws must give way to consolidations effected under authority of the commerce or bankruptcy powers of the federal constitution."

showing that the power existed under Section 5(11) of the Interstate Commerce Act, as well as under the powers conferred by Section 77(f) of the Bankruptcy Act. Likewise in the case of *In Re New York N. H. & H. R. Co.*, 147 F. (2d) 40, at page 52, certiorari denied 325 U. S. 884, 89 L.

Ed. 199, it was held that even if the Boston Terminal Act, a statute of the State of Massachusetts, was considered as an exercise of the police power of that state, its burdensome regulations should be superseded by the provisions of a duly approved plan of reorganization under the authority conferred by Section 77(f) of the Bankruptcy Act, and the powers conferred by the latter act are no broader than Section 5(11) of the Interstate Commerce Act.

The authority exercised by the Commission under Section 5 of the Act is analogous to the authority exercised by the Commission under paragraphs 18-20 of Section 1 of the Act. In *Colorado v. United States*, 271 U. S. 153, 70 L. Ed. 878, Colorado brought a suit to enjoin and set aside an order of the Commission permitting the abandonment by the Colorado & Southern of a branch line located wholly in that State. The railroad company owned and operated in intrastate and interstate commerce a railroad system located partly in Colorado and partly in other states. The branch which it sought to abandon was constructed under the authority of Colorado and was acquired by it under authority of that State. The line was narrow gauge and was physically detached from other lines of the company, but it was operated in both interstate and intrastate commerce as a part of the system of the Colorado Southern by means of connections with other railroads. This Court sustained the power of the Commission to grant the certificate of abandonment.

*Alabama & V. R. Co. v. Jackson & E. R. Co.*, 271 U. S. 244, 70 L. Ed. 928, arose under Section 1 of the Interstate Commerce Act. In that case the two railroads were both Mississippi corporations and each owned and operated in both intrastate and interstate commerce a rail-

road within that state. The Jackson Railway instituted a proceeding under Mississippi law to secure by eminent domain a connection with the Alabama Railway's line at a point east of the City of Jackson. Prior to instituting the eminent domain proceeding the Jackson Railway had secured from the Interstate Commerce Commission a certificate authorizing an extension of its line. That order, however, made no reference to the crossing which the Jackson Railway sought in the eminent domain proceedings in the State court. This suit was brought by the Alabama Railway in a State court in Mississippi to enjoin the Jackson Railway from pursuing the eminent domain proceeding on the ground that the Interstate Commerce Commission had exclusive jurisdiction over the establishment of junctions or physical connections between railroads engaged in interstate commerce. The Supreme Court of Mississippi dismissed the suit brought to enjoin the eminent domain proceedings. The Court on writ of error reversed that court, saying:

"It is true that in this case the state court found that the place selected for the junction was a proper one. But the power to make the determination whether state action will obstruct interstate commerce inheres in the United States as an incident of its power to regulate such commerce. Compare *Colorado v. United States* (No. 195, decided May 3, 1926), 271 U. S. 153, 46 S. Ct. 452, 70 L. Ed. 878. In matters relating to the construction, equipment, adaptation and use of interstate railroad lines, with the exceptions specifically set forth in paragraph 22, Congress has vested in the Commission the authority to find the facts and thereon to exercise the necessary judgment."

State courts have consistently recognized that under Section 20(a)(7) of the Act carriers could issue securities authorized by the Commission without regard to state restrictions, in spite of the fact that Section 20(a) does not expressly confer additional corporate powers, as does Section 5. Thus in *Minneapolis, St. P. & S. S. M. Ry. Co. v. Railroad Commission*, 183 Wis. 47, 197 N. W. 352, the Railroad Commission of Wisconsin under the statute of that State collected fees from the railroad upon bonds which had been approved by the Interstate Commerce Commission under Section 20(a)(7). The railway paid the Wisconsin fees under protest and filed suit for their recovery on the ground that they were illegal under section 20(a)(7), and the state court permitted their recovery, saying:

"It is argued by counsel for the state that the construction we have given to the federal statute would in effect modify the laws of the state creating the corporation, and that this is beyond the power of Congress. We have no doubt that under the federal Constitution giving Congress the broad power to regulate commerce between the states, in the exercise of that power it may enact statutes which operate to modify or supersede state legislation which seeks to control or regulate interstate commerce.

"In a case where it was claimed that a corporation was created by a state and was therefore not subject to the regulations under consideration, the court said:

'We cannot conceive how it is possible for anyone to seriously contend for such a proposition. It means nothing less than that Congress, in regulating interstate commerce, must act in subordination to the will of the states when exerting their power to create corporations. No



such view can be entertained for a moment.' *Northern Securities Co. v. United States*, 193 U. S. 197, 345, 24 Sup. Ct. 436, 460 (48 L. Ed. 679); *Houston E. & W. T. R. Co. v. United States*, 234 U. S. 342, 34 Sup. Ct. 833, 58 L. Ed. 1341; *Minnesota Rate Case*, 230 U. S. 352, 33 Sup. Ct. 729, 57 L. Ed. 1511, 48 L. R. A. (N. S.) 1151, Ann. Cas. 1916A, 18."

Similar situations arose in *Chicago & E. I. Ry. v. Miller*, 309 Ill. 257, 140 N. E. 823 and in *Whitman v. Northern Cent. Ry. Co.*, 146 Md. 580, 127 Atl. 112, in which the Illinois and Maryland courts enforced the provisions of Section 20 (a) of the Interstate Commerce Act and permitted interstate railroads to recover state imposed fees for issuing securities.

In *Re St. Louis Southwestern Ry. Co.*, 53 Fed. Supp. 914 involved a railroad reorganization. The court held that even though the provision of Missouri law prohibiting issuance by corporations of stock or bonds, except for money paid, labor done or property actually received, was applicable to the railway company domiciled in Missouri, such provision was superseded by the Interstate Commerce Act.

The argument in this Section (1) may be briefly summarized as follows:

(a) The decision of the Supreme Court of South Carolina is clearly inconsistent with the decision of this Court in *Texas v. United States*, 292 U. S. 522, 78 L. Ed. 1402 unless the amendments of Section 5 made by the Transportation Act of 1940 have weakened rather than strengthened the powers granted by Congress to the Interstate Commerce Commission and to the carriers under that section;

(b) Far from weakening those powers, the amendment of Section 5 has clarified and strengthened the exclusive and plenary power given to the Commission and has made specific the grant of additional corporate power to affected carriers; and

(c) The provision negating Federal incorporation, on which the South Carolina Court primarily relies, cannot be construed as any limitation on the powers granted to the Commission and to the carriers. The South Carolina Court has disregarded the clear power of Congress to confer additional powers on state corporations, without Federal incorporation.

## (2)

**Under Section 5 (11) of the Interstate Commerce Act the Commission had Plenary Authority to Authorize Appellant to Operate in South Carolina upon the Affirmative Finding that Such Acquisition is in the Public Interest. It Was Not Necessary for the Commission to Find, Though It Did, that Compliance with the South Carolina Law Would Impose an Undue Burden Upon Interstate Commerce, and Would Not Accord with the National Transportation Policy Nor Be Consistent with the Public Interest.**

Under Section 5 (a)(1) of the Act, pursuant to which Appellant obtained the right to acquire the lines of the old company, there is no qualification of the power of the Commission to authorize any carrier to purchase the properties of another, and under paragraph (11) any carrier participating in any transaction approved by the Commission "shall have full power \* \* \* to carry such transaction into effect and to own and operate any properties and exercise

any control or franchises acquired through said transaction without invoking any approval under State authority."

All that the Commission need find is that the transaction is consistent with the public interest. The Commission was not required to find that the South Carolina law imposed a burden upon interstate commerce, because the statute itself, in paragraph (11), provides further that "any carriers \* \* \* \* participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation \* \* \* \* of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for \* \* \* \* and to hold, maintain, and operate any properties and exercise any control or franchises acquired through such transaction."

Thus the foregoing provisions are clearly self-executing, and the power in the new company to acquire, own, and operate was not conferred by the Commission but by the statute, and came into play as soon as the Commission had determined that the acquisition of the properties of the old company by the Appellant was in the public interest.

However, to the extent that the finding by the Commission that compliance with the South Carolina law would impose an undue burden upon commerce and would conflict with the national transportation policy of Congress is pertinent, that finding was conclusive upon the South Carolina court. *United States v. New River Co.*, 265 U. S. 533, 68 L. Ed. 1165; *Ohio v. United States*, 292 U. S. 498, 78 L. Ed. 1388.

In this case, the state court, in one sentence, undertook itself to exercise the power conferred upon the Commis-

sion, with respect to the finding of fact. Having before it only the report and order of the Commission, and not the evidence upon which the finding in question was made (except to the extent set forth in the report and order itself) the Court below undertook to balance the conveniences and to determine independently and for itself the question the Commission was empowered to decide and had already decided. The Court below said that (R. 162), "As shown by the report and order of the Commission, the cost incident to obtaining a South Carolina charter is negligible as compared with the millions of dollars in value of the physical properties and the millions of dollars of income owned and controlled by the plaintiff". In other words, and as it specifically stated in the next sentence, the Court below made a finding of fact important to its decision (although stated as if its importance was not clearly felt) and contrary to the finding of the Commission on the same fact. The Court below said:

"It might be inconvenient or undesirable to obtain a South Carolina charter, but we do not see how such requirement would constitute a burden on interstate commerce."

In other words, the Court below substituted its judgment for that of the Commission and found that the South Carolina requirements did not constitute a burden on interstate commerce.

There was here the appraisal and accommodation by the Commission of competing demands of the state and national interests involved. (*Southern Pacific Co. v. Arizona*, 325 U. S. 761, 89 L. Ed. 1915). In the case of *Morgan v. Virginia*, 328 U. S. 373, 90 L. Ed. 1317 as pointed out in the dissenting opinion of Mr. Justice Burton,

the mere recital of a nation-wide diversity among state statutes upon the subject in question was sufficient to support the holding that the Virginia statute involved in that case was invalid as an undue burden on interstate commerce. With respect to such administrative findings, as this Court said in *Securities and Exchange Commission v. Chenery* 332 U. S. 194, 91 L. Ed. Adv. 1429;

"Our duty is at an end when it becomes evident that the Commission's action is based upon substantial evidence and is consistent with the authority granted by Congress".

See also:

*Freeman v. Hewitt*, 329 U. S. 249, 91 L. Ed. Adv. 205.

*Bethlehem Steel Co. v. New York Labor Rel. Bd.*, 330 U. S. 767, 91 L. Ed. Adv. 887.

*So. Pac. Co. v. Arizona*, 325 U. S. 761, 89 L. Ed. 1915.

(3)

**Appellant Is Not Only an Instrumentality of Interstate Commerce But Is Also an Instrumentality of the Federal Government Within the Rule that a State May Not Use Its Constitutional Powers to Exclude a Foreign Corporation from Business Within Its Borders If in So Doing It Denies a Federal Right or Prevents the Performance of Functions Imposed by Federal Authority.**

It has already been pointed out that the wording of Section 5 of the Interstate Commerce Act, and in particular Paragraph (11), makes it clear that Congress intended to confer upon carriers acquiring properties of another



carrier with the approval of the Commission powers in addition to their powers under state laws to the extent necessary to carry out the national transportation policy. That Congress may give additional powers to a state corporation is settled by the decisions of this Court. It is also settled that a state may not use its powers to exclude a foreign corporation from business within its borders, if in so doing it denies a federal right or impedes the exercise of functions imposed upon the corporation by the Federal government or directly burdens interstate commerce. *Looney v. Crane Co.*, 245 U. S. 178, 62 L. Ed. 230; *Horn Silver Mining Co. v. New York*, 143 U. S. 305, 36 L. Ed. 164; *Pensacola Telegraph Co. v. Western Union Telegraph Co.*, 96 U. S. 1, 24 L. Ed. 708; *Stockton, Attorney General v. Baltimore & New York R. Co.*, 32 Fed. 9 (C. C. N. J.); *Essex v. New England Tel. Co.*, 239 U. S. 313, 60 L. Ed 301.

Under Title 39, U. S. C. A., Section 541, 39 Stat. 429:

"All railway common carriers are hereby required to transport such mail matter as may be offered for transportation by the United States, in the manner, under the conditions and with the service prescribed by the Postmaster General and shall be entitled to receive fair and reasonable compensation for such transportation and for the service connected therewith."

Under this provision mail service is compulsory (*United States v. New York Central R. R. Co.*, 279 U. S. 73, 73 L. Ed. 619), and Appellant is a servant of the Federal Government in the matter of transportation of the mails, performance of whose service can not be impeded by state

authority. Such an impediment exists, since Appellant may not even operate to carry the mails in South Carolina if the South Carolina law is valid.

It is also well established that Congress may select an existing state corporation as an instrumentality for the accomplishment of national ends, and may properly grant to such a corporation franchises and powers to be exerted for objects of national concern. To the extent of the powers, rights, privileges and immunities granted to such corporations by the Federal government, Congress may exert the powers of amendment, alteration, and repeal. 23 *Amer. Jur.*, Section 418, pp. 418-420.

In *Pensacola Telegraph Co. v. Western Union Telegraph Co.*, 96 U. S. 1, 24 L. Ed. 708, it was held that the Act of Congress of July 24, 1866, enacted to aid in the construction of telegraph lines, which provided that any telegraph company then organized under the laws of any state could construct, own, and operate lines of telegraph, the telegraph as an agency of commerce came under the controlling power of Congress and was protected against hostile state legislation, and therefore the Western Union could not be excluded by the State of Florida from prosecuting its business therein, so as to protect privileges extended by Florida to a rival telegraph company.

In *Stockton v. Baltimore & New York R. Co.*, 32 Fed. 9, in an opinion by Mr. Justice Bradley on circuit, the Circuit Court held that an Act of Congress of June 16, 1886, authorizing the Baltimore & New York Railroad Company and another railroad, both foreign corporations in the State of New Jersey, to construct and maintain a railroad bridge across Staten Island Sound to the New Jersey shore, was within the supreme power of Congress to regulate com-

merce, and the State of New Jersey could not oppose the construction on the ground that the two railroads had no authority from the state to exercise any corporate franchises therein and because they were expressly prohibited from exercising any such powers or franchises without permission of the legislature of New Jersey, which had not been conferred. The Court said:

"Another question of a preliminary character relates to the capacity and right of the defendant, the Staten Island Rapid Transit Railroad Company, to perform any acts and transact any business as a corporation in New Jersey. It is argued that corporations, as such, have no legal existence outside of the state by whose laws they are created, and cannot transact business in another state except by the comity of its laws, which are not accorded in the present case. This doctrine is subject to much qualification. \* \* \*

"It is undoubtedly just and proper that foreign corporations should be subject to the legitimate police regulations of the state, and should have, if required, an agent in the state to accept service of process when sued for acts done or contracts made therein. In reference to some branches of business, like those of banking and insurance, which affect the people at large, they may also be subject to more stringent regulations for the security of the public, and may be even prohibited from pursuing them except upon such terms and conditions, not unlawful in themselves, as the state chooses to impose. But in the pursuit of business authorized by the government of the United States, and under its protection, the corporations of other states cannot be prohibited or obstructed by any state. If congress should employ a corporation of ship-builders to construct a man-of-war, they would have the right to purchase the necessary timber and iron in any state of the

Union. And, in carrying on foreign and interstate commerce corporations, equally with individuals, are within the protection of the commercial power of congress, and cannot be molested in another state by state burdens or impediments. This was held and decided in the case of *Gloucester Ferry Co. v. Pennsylvania*, 114 U. S. 204, 5 Sup. Ct. Rep. 826, and affirmed in the recent case of *Philadelphia S. S. Co. v. Pennsylvania*, 122 U. S. 326, 7 Sup. Ct. Rep. 1118; \* \* \*

"At all events, if congress, in the execution of its powers, chooses to employ the intervention of a proper corporation, whether of the state, or out of the state, we see no reason why it should not do so. There is nothing in the constitution to prevent it from making contracts with or conferring powers upon, state corporations, for carrying out its own legitimate purposes. What right of the state would be invaded? The corporation thus employed, or empowered in executing the will of congress, could do nothing which the state could rightfully oppose or object to. It may be added that no state corporation more suitable than the defendant could be empowered to build the bridge in question in this case, since one-half of the bridge is in the state of New York, and the railroad of the defendant is to connect with it on the New York side.

"In our judgment, if congress itself has the power to construct a bridge across a navigable stream for the furtherance of commerce among the states, it may authorize the same to be done by agents, whether individuals, or a corporation created by itself, or a state corporation already existing and concerned in the enterprise. The objection that congress cannot confer powers on a state corporation is untenable. It has used their agency for carrying on its own purposes from an early period. It adopted as post-roads the turnpikes belonging to the



various turnpike corporations of the country, as far back as such corporations were known, and subjected them to burdens, and accorded to them privileges, arising out of that relation. It continued the same system with regard to canals and railroads, when these modes of transportation came into existence. \* \* \* The powers thus conferred were independent of the powers conferred by the charter of any railroad company. Surely these acts of congress cannot be condemned as unconstitutional exertions of power."

See also *Western Union Tel. Co. v. Texas*, 105 U. S. 460, 26 L. Ed. 1067; *Hooper v. California*, 155 U. S. 648, 39 L. Ed. 297.

Citing with approval *Stockton v. Baltimore & N. Y. R. Co.*, 32 Fed. 9 *supra*, this Court, speaking by Mr. Justice Field, said in *Pembina Consolidated Silver Mining Co. v. Pennsylvania*, 125 U. S. 181, 31 L. Ed. 650:

"And undoubtedly a corporation of one State, employed in the business of the General Government, may do such business in other States without obtaining a license from them."



**The South Carolina Constitutional and Statutory Provisions Are Void In and of Themselves as Imposing an Obstruction to and Burden Upon Interstate Commerce. They Prohibit the Ownership and Operation by a Foreign Corporation of Any Railroad Even in Interstate Commerce, and Do Not Attempt to Confine the Prohibition to Intrastate Ownership and Operation, Even if Such a Limited Prohibition Could, Under the Circumstances, Be Valid.**

1. It is too well settled to require any extensive citation of authorities that a state can not exclude a foreign corporation from the transaction of interstate commerce within its borders. *Looney v. Crane Co.*, 245 U. S. 178, 62 L. Ed. 230; *Horn Silver Mining Co. v. New York*, 143 U. S. 305, 36 L. Ed. 164; *Pensacola Tel. Co. v. Western Union Tel. Co.*, 96 U. S. 1, 24 L. Ed. 708; *West v. Kansas Natural Gas Co.*, 221 U. S. 229, 55 L. Ed. 716.

Both the constitutional and statutory provisions in question here absolutely prohibit any ownership or operation of a railroad by a foreign corporation, and the provisions are so worded as to constitute an entirety, so that they can not be construed as permitting, even by implication, ownership and operation in interstate commerce and as confining the prohibition to ownership and operation in intrastate commerce.

For the purpose of the argument under this heading, we do not expand upon the obvious absurdity that would result, even if the South Carolina law was susceptible of any such interpretation. For both the constitutional and statutory provisions prohibit not only operation but ownership as well by a foreign corporation, so that the Seaboard

would have the empty privilege of operating in interstate commerce in South Carolina but without the right to acquire properties with which to operate.

It is equally well settled that a statute accomplishing all its results by the same general words must be valid as to all that it embraces or altogether void, for an exception of a class constitutionally exempted can not be read into those general words merely for the purpose of saving what remains. *United States v. Ju Toy*, 198 U. S. 253, 49 L. Ed. 1040. And, in the absence of a legislative declaration that invalidity of a portion of a statute shall not affect the remainder, the presumption is that the legislature intended the act to be effective as an entirety, so that, if any provision is unconstitutional, the remaining provisions fall with it. *Carter v. Carter Coal Co.*, 298 U. S. 238, 80 L. Ed. 1160; *Harrison v. St. L. & S. F. R. Co.*, 232 U. S. 318, 58 L. Ed. 621.

In *Bowman v. Continental Oil Company*, 256 U. S. 642, 65 L. Ed. 1139, it was held that the invalidity as respects interstate commerce of an annual license tax imposed by New Mexico upon gasoline distributing stations, with a prohibition against further conduct of business without making the required payment, renders the tax unenforceable not only as to interstate but also as to domestic commerce operated by a dealer who conducted his interstate and domestic business indiscriminately at the same stations and by the same agencies. This Court said:

"By accepted canons of construction, the provisions of the act in respect of this tax are not capable of separation so as to confine them to domestic trade, leaving interstate commerce exempt \* \* \*.

"No doubt the state might impose a license tax upon the distribution and sale of gasoline in domes-

tic commerce if it did not make its payment a condition of carrying on interstate or foreign commerce. But the state has not done this by any act of legislation. Its executive and administrative officials have disavowed a purpose to exact payment of the license tax for the privilege of carrying on interstate commerce. *But the difficulty is that since plaintiff, so far as appears, necessarily conducts its interstate and domestic commerce in gasoline indiscriminately at the same stations and by the same agencies, the license tax can not be enforced at all without interfering with interstate commerce, unless it be enforced otherwise than as prescribed by the statute,—that is to say, without authority of law. Hence it can not be enforced at all.* (Emphasis Supplied.)

The italicised part of the foregoing quotation is particularly apt in its application to a modern railway system conducting both interstate and intrastate business through the same tracks, trains, stations, agencies, and other facilities in a blending incapable of separation.

In *Crutcher v. Kentucky*, 141 U. S. 47, 35 L. Ed. 649, Kentucky required a license for the operation of express companies in the state, and prohibited the transaction of any business in the state until the filing of the charter of the express company, payment of the license fee, and also a certificate showing required dollar capitalization. The statute prohibited the transaction of any business in the state without compliance with these requirements. Holding that the statute applied indiscriminately to both intrastate and interstate commerce, and hence was void, this Court said:

“This [the statute], of course, embraces interstate business as well as business confined wholly

within the State. It is a prohibition against the carrying on of such business without a compliance with the state law. \* \* \* \*

"We do not think that the difficulty is at all obviated by the fact that the express company, as incidental to its main business (which is to carry goods between different States) does also some local business by carrying goods from one point to another within the State of Kentucky. This is probably quite as much for the accommodation of the people of that State as for the advantage of the company. But, whether so or not, it does not obviate the objection that the regulations as to license and capital stock are imposed as conditions on the company's carrying on the business of interstate commerce, which was manifestly the principal object of its organization. \* \* \* \* The case is entirely different from that of foreign corporations seeking to do a business which does not belong to the regulating power of Congress."

The Supreme Court of South Carolina has itself stated, in the case of *Carolina C. & O. Ry. v. McCown*, 84 S. C. 318, 66 S. E. 418, that the main object of the framers of the Constitution in adopting Section 8 of Article 9 was to require foreign railroad companies, operating or seeking to operate railroads in this state, to be placed on the same footing with domestic corporations as to their rights and liabilities, under the jurisdiction of the state courts, meaning, of course, to prevent foreign railroad corporations from removing cases to the Federal courts. In the *McCown* case, *supra*, the Supreme Court of South Carolina said "this is the language of the court in *Railroad v. Tompkins*, 48 S. C. 49," and it assigns the only reasonable ground for

inserting this section in the Constitution." (\*) (Emphasis supplied)

With this unequivocal interpretation of the purpose of the constitutional and statutory provisions by the highest court of the State, it is perfectly clear that it could not have been the intention of those provisions to exempt railroad operations in interstate commerce from the prohibition of ownership and operation. Moreover that purpose in and of itself would invalidate both the constitutional and statutory provisions, see *Harrison v. St. L. & S. F. R. Co.*, 232 U. S. 318, 58 L. Ed. 621; and *Donald v. Phila. & Reading R. Co.*, 241 U. S. 329, 60 L. Ed. 1027.

Since the purpose of the statute was to prevent removal of causes to the Federal courts, the South Carolina legislators obviously intended to make no distinction between intrastate and interstate commerce, because such a distinction would have no effect upon the question of removal.

In *West v. Kansas Natural Gas Co.*, 221 U. S. 229, 55 L. Ed. 716, a statute of Oklahoma wholly prohibited foreign corporations transporting natural gas by means of pipe lines from conducting business in the state. The purpose of the statute was to confine the use and transmission of natural gas wholly within the limits of Oklahoma. It was held that, since the necessary effect was an exclusion of the right of the natural gas company to conduct interstate commerce, the statute was void.

In *Buck v. Kuykendall*, 267 U. S. 307, 69 L. Ed. 623, a statute of the State of Washington prohibited use of interstate highways in the state by motor vehicles acting

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(\*) The constitutional provision here in question was adopted in 1895, presumably as a result of the legal warfare reported in *Ex Parte Tyler*, 149 U. S. 164, 37 L. Ed. 689 (1893).



as common carriers in interstate commerce without a certificate of public convenience and necessity from the state authorities. Buck was denied a certificate on the ground that existing motor vehicle service was adequate. Holding the statute invalid, Mr. Justice Brandeis said that the primary purpose of the law

"is not regulation with a view to safety or to conservation of the highways, but the prohibition of competition. It determines not the manner of use, but the persons by whom the highways may be used. It prohibits such use to some persons, while permitting it to others for the same purpose and in the same manner. \* \* \* Thus the provision of the Washington statute is a regulation, not of the use of its own highways, but of interstate commerce. Its effect upon such commerce is not merely to burden but to obstruct it. Such state action is forbidden by the commerce laws. It also defeats the purpose of Congress expressed in the legislation giving Federal aid for the construction of interstate highways."

A state statute that operates directly to burden any of the essential elements or instrumentalities of interstate commerce is invalid. In *Foster-Fountain Packing Co. v. Haydel*, 278 U. S. 1, 10, 73 L. Ed. 147, 153, it was held, for example, that a Louisiana statute prohibiting the shipping of shrimp out of the state, with the purpose of confining the processing and canning of shrimp packing to Louisiana, while permitting free shipment of the finished product, violated the Commerce Clause. In *Frost v. R. R. Commission*, 271 U. S. 583, 70 L. Ed. 1101, the Court repeated the established rule that a state may not use its powers to exclude a foreign corporation from business within its borders if in doing

so it denies a Federal right. See also *International Paper Co. v. Mass.*, 246 U. S. 135, 62 L. Ed. 624; *Sprague v. Thompson*, 118 U. S. 90, 30 L. Ed. 115; *International Textbook Co. v. Pigg*, 217 U. S. 91, 54 L. Ed. 678; *Lynch v. U. S.*, 292 U. S. 571, 78 L. Ed. 1434; *Williams v. Standard Oil Co.*, 278 U. S. 235, 73 L. Ed. 287.

Even assuming, however, that the South Carolina law could be construed as not interdicting ownership and operation of the railroad lines in that state if confined to interstate commerce, nevertheless that commerce would be unlawfully burdened and the ability of the Seaboard to perform its public duties economically and efficiently agreeably to the transportation policy declared by the commerce act would be impaired. Compare *Baldwin v. Seelig*, 294 U. S. 511; 79 L. Ed. 1032, where a law of the State of New York prohibiting the sale therein of milk purchased in other states, unless the price paid was no less than the New York price, unconstitutionally set a barrier to interstate traffic as effective as if custom duties had been laid in violation of Article 1, Section 10, Clause 2 of the Federal Constitution where this Court said:

"It is the established doctrine of this court that a state may not, in any form or under any guise directly burden the prosecution of interstate business" (Emphasis supplied).

Confinement of the Seaboard to interstate operation would be no less unlawful than the effort of a state to hold charges for freight and passengers to a level found by the interstate commerce commission to impose a burden on commerce because depleting the revenues below the necessary level for efficient operation in the public interest,

and as effecting a burdensome discrimination against interstate revenues.

Even in the case of a tax, a state may not discriminate as to goods from another state after they have come to rest in the taxing state "if the real incidence of the tax is against the merchandise because of its origin in another state." *Sonneborn Bros. v. Cureton*, 262 U. S. 506, 67 L. Ed. 1095, and other cases cited in the opinion in *Baldwin v. Seelig*, *supra*.

(5)

**In Excluding Foreign Railroad Corporations from the State, While Permitting Free Access to Other Types of Foreign Corporations, South Carolina Discriminates Against Such Corporations and in Favor of Other Corporations in Violation of the Equal Protection and Due Process Clauses of the Fourteenth Amendment.**

No corporation except a railroad corporation is required to incorporate in South Carolina in order to do business within the state and there is no reasonable basis for the invidious classification of railroads as the sole objects of exclusion. That is especially so in view of the purpose, stated by the Supreme Court of South Carolina, in the decision of that court cited *ante* page 44, as the only one, of denying railroad corporations access to the Federal courts. Under Section 7764-7767 of the South Carolina Code 1942, foreign corporations generally are permitted to qualify for business in South Carolina by filing copies of their charter with the Secretary of State and paying the moderate initial fee of fifty dollars and an annual fee of ten dollars. In *Liggett*

*Co. v. Lee*, 288 U. S. 517, 536, 77 L. Ed. 929, 938, the rule is stated that:

"Unequal treatment and arbitrary discrimination as between corporations and natural persons, or between different corporations, inconsistent with the declared object of the legislation, can not be justified by the assumption that a different classification for a wholly different purpose might be valid." (Emphasis supplied.)

In *Quaker City Cab Co. v. Penn.*, 277 U. S. 389, 72 L. Ed. 927, it was held that the equal protection clause of the 14th Amendment extends to foreign corporations within the jurisdiction of the state, and safeguards to them the protection of laws applied equally to all in the same situation, so that the plaintiff in error, a foreign corporation, was entitled in Pennsylvania to the same protection of equal laws that natural persons within its jurisdiction have a right to demand under like circumstances. Accordingly, Pennsylvania could not tax a New Jersey taxicab company on a basis that discriminated in favor of domestic taxicab companies and individuals operating taxicabs. See also *Power Manufacturing Co. v. Saunders*, 274 U. S. 490, 71 L. Ed. 1165. And for arbitrary classification violative of the Fourteenth Amendment, see *Gulf C. & S. F. R. Co. v. Ellis*, 165 U. S. 150, 41 L. Ed. 666.

### CONCLUSION

It is respectfully submitted that the Court should find that the Interstate Commerce Commission did not exceed its powers in this situation and that the judgment of the Supreme Court of South Carolina should be reversed with

directions for the issuance of a permanent injunction restraining the attempted enforcement by the appellee Attorney General of the South Carolina penalty statute and requiring the Supreme Court of South Carolina, and the officials of that state, to take further proceedings in accordance with the opinion of this Court.

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## APPENDIX

## A.

The pertinent constitutional and statutory Provisions of the  
State of South Carolina.

## I

## CONSTITUTIONAL PROVISIONS

## Section 8 of Article 9:

*"Section 8. No foreign corporation can build or operate a railroad in this State—no general or special law for foreign corporation, except on conditions.—*

The General Assembly shall not grant to any foreign corporation or association a license to build, operate or lease any railroad in this State; but in all cases where a railroad is to be built or operated, or is now being operated, in this state, and the same shall be partly in this State and partly in another State, or in other States, the owners or projectors thereof shall first become incorporated under the laws of this State; nor shall any foreign corporation or association lease or operate any railroad in this State, or purchase the same or any interest therein.

"Consolidation of any railroad lines and corporations in this State with others shall be allowed only where the consolidated company shall become a domestic corporation of this State. No general or special law shall ever be passed for the benefit of any foreign corporation operating a railroad under any existing license of this State or under any existing lease, and no grant of any right or privilege and no exemption from any burden shall be made to any such foreign corporation, except upon the condition that the owners or stockholders thereof shall first organize a corporation in this State under the laws thereof, and shall thereafter operate and

manage the same and the business thereof under said domestic charter."

Section 11 of Article 9:

"Section 11.—*Election of Officers of Corporations.* The General Assembly shall provide by law for the election of directors, trustees or managers of all corporations so that each stockholder shall be allowed to cast, in person or by proxy, as many votes as the number of shares he owns multiplied by the number of directors, trustees or managers to be elected, the same to be cast for any one candidate or to be distributed among two or more candidates."

## II.

### STATUTORY PROVISIONS

"Sec. 7777. *Requisites for obtaining charter.*—The owners or stockholders of each and every railroad company created or organized or by virtue of the laws of any government or State, other than this State, desiring to own property or carry on business or exercise any corporate franchise in this State whatsoever, shall, either in their names or by such persons as they shall designate, first apply for a charter and become incorporated, as a corporation of this State, in the manner provided by chapter 159. At least one of the petitioners for such charter of incorporation, and at least one of the incorporators of such railroad companies shall be a resident of this State."

"Sec. 7778. *How foreign railroad companies may do business in this State.*—Each and every railroad company created or organized under and by the laws of any government or State, other than this State, and now operating any railroad in this State, either as the owners thereof or otherwise, or carrying on any business or exercising any corporate

franchise in this State, shall, on or before the first day of June, 1902, apply for a charter of incorporation under the laws of this State, in the manner directed in section 7777, and no such railroad company shall carry on business or exercise any corporate franchise in this State after the said date, without having complied with the provisions of sections 7777 thru 7779 and 7783 thru 7787."

"Sec. 7779. *One of the corporators must be resident*—No charter shall be granted to any such railroad company under the provisions of sections 7777 thru 7779 and 7783 thru 7787, or of chapter 159 unless at least one of the corporators is a resident of this State, and all privileges heretofore acquired by any such railroad companies doing business in this State, are hereby revoked and repealed, on and after June 1, 1902, unless such companies have complied with the requirements of sections 7777 thru 7779 and 7783 thru 7787."

Sections 7777 through 7779, which are referred to in Section 7778, are set out above. Sections 7783 through 7787, which are also referred to in Section 7778, are here set forth:

"Sec. 7783. *Companies complying with provisions excused from paying other fees.*—All persons applying for the incorporation of any railroad company, under the provisions of sections 7777 thru 7779 and 7783 thru 7787, shall pay the fees required by chapter 159, except such railroad companies as have complied with the provisions of an act to provide for the incorporation of railroad companies, approved March 9, 1896, and paid the fees fixed by said act as amended by an act approved the 5th day of March, A. D. 1897."

"Sec. 7784. *Penalty for Failure to comply with law.*—It shall be unlawful for any such foreign railroad company to do business, or attempt to do business, in this State without first having complied with the requirements of sections 7777 thru 7779 and 7783 thru 7787. Any violation of sections 7777 thru 7779 and 7783 thru 7787 shall be punished by the forfeiture to the state by the party offending of a penalty of five hundred dollars, to be recovered by suit in the court of common pleas, for each and every county in which such offender does, or attempts to do, business, or in any other court of competent jurisdiction. And it shall be the duty of the attorney general to bring suit for recovery of such penalty for each and every offense."

"Sec. 7785. *Consolidations of railroad companies.*—The provisions of sections 7777 thru 7779 and 7783 thru 7784 shall in no way abrogate or repeal the right of railroad companies to consolidate according to law or effect consolidation already made according to law, when at least one of the corporations so consolidating is a corporation of this State, with corporators resident in this State."

"Sec. 7786. *Corporations domesticated under laws in accordance with Constitution of 1895, excepted.*—The provisions of sections 7777 thru 7779 and 7783 thru 7785 shall not be construed to extend to any corporation that may have heretofore become domesticated under the laws of this State passed in accordance with the terms of the Constitution of 1895."

"Sec. 7787. *Liability of railroad company to actions for damages.*—Any railroad company referred to in sections 7785 and 7786, may for all causes of action for injury to the person or property of any citizen of this State, along the line of road, arising hereafter in the operation of any line of railroad which was

originally chartered and operated under the laws of this State, and which is now owned or leased and operated by it, be sued jointly with the company originally incorporated in this State, and which owned and operated said line of railroad; and said railroad company originally chartered in this State, or said consolidation of railroads, shall be and remain liable upon all such causes of action, and may be made a party defendant in all actions for such injuries."

"Sec. 8285. *Companies may merge and consolidate.*—

It shall be lawful for any railroad company organized under the laws of this State, and operating a railroad, whether wholly within or partly within and partly without this State, under authority of this and any adjoining State, to merge and consolidate its capital stock, franchises and property with those of any other railroad company or companies organized and operated under the laws of this or any other State, whenever two or more railroads of the companies proposed to be consolidated are continuous or are connected with each other or by means of any intervening railroad. Railroads terminating on the banks of any river which are or may be connected by ferry or othrewise shall be deemed continuous under this article. Nothing in this article contained shall be taken to authorize the consolidation of any company of this State with that of any other State whose laws shall not also authorize the like consolidation: *provided*, that nothing contained in this section shall authorize any merger or consolidation inconsistent with the Constitution and laws of this State, with regard to parallel or competing railroad lines, but such merger and consolidation shall be subject to the limitations mentioned and specified therein: *provided, further*, that when railroad companies are consolidated under the



provisions of this article a charter of incorporation for the new company so formed by such consolidation shall be issued to the owners and stockholders of the company so consolidating or to such of them as the stockholders of each of said companies shall designate: and *provided, further*, that only the fees now provided by law for consolidation be charged, and no additional fee be charged for such charter."

"Sec. 7764. *Rights and privileges granted to foreign corporations.*—Foreign corporations duly incorporated under the laws of any State of the United States, or of any foreign country in treaty and amity with the said United States, are hereby permitted to locate and carry on business within the State of South Carolina in like manner and with like powers as corporations of like kind and class created under the laws of this State, subject, nevertheless, to the terms and conditions in this chapter hereafter set forth."

"Sec. 7765. *Stipulation to be filed by foreign corporations doing business in this State.*—Each and every foreign corporation now doing business in the State of South Carolina, or that may hereafter apply for admission, shall, within sixty days, file with the secretary of state a written stipulation or declaration in due form, designating some place within this State as the principal place of business or place of location of said corporation, in this State, at which all legal papers may be served on said corporation, by delivery of the same to any officer, agent or employee of said corporation, found therein: *provided*, that whenever any foreign corporation transacts business in this State without first having complied with the provisions of the within section, and pursuant thereto designating a principal place of business or place of location of said corporation in this State at which all legal processes may be served, said foreign cor-

poration so transacting business in this State without complying with said section shall be deemed to have designated the secretary of state as his true and lawful agent upon whom may be served all legal process in any action or proceedings against said foreign corporation growing out of the transaction of any business in this State. Said service of process shall be made by leaving a copy of the process, with a fee of one (\$1.00) dollar in the hands of the secretary of state, or in his office, and such service shall be deemed sufficient service upon said foreign corporation and such service shall have like force and effect in all respects as service upon citizens of this State found within the limits of the same: *provided*, that notice of such service and a copy of the process are forth-with sent by registered mail by the plaintiff, to the defendant foreign corporation and the defendant's return receipt and the plaintiff's affidavit of compliance therewith are filed in said cause and submitted to the court from whom said process issued and the said service of said process may be made by delivery to said corporation of a copy thereof outside the State and proof of such delivery may be made by the affidavit of the person delivering the same, which affidavit shall be filed in said cause and be submitted to the court from which said process issued. The court in which the action is pending may order such continuances as may be necessary to afford the defendant foreign corporation reasonable opportunity to defend the action: *provided, however*, that nothing herein shall apply to insurance companies or associations heretofore by law required to pay fees to the department of insurance of this State."

"Sec. 7766. *Papers and statements to be filed*—In addition to the said declaration, each corporation is hereby required to file in the office of the secretary

of state, together with written stipulation or declaration aforesaid, copies of their charter and by-laws, with all increases of capital stock and amendments to the same that may from time to time be made, within sixty days from the date of making the same. In addition thereto, the said corporations are required to file annually in the office of the secretary of state on or before the thirty-first day of January of each year, a statement sworn to by some officer of the corporation, showing the residence and postoffice address of such corporation within the State, the amount of capital stock of the same actually paid and the names of the president and secretary (if there be any such), and the board of directors with their respective places of residence and postoffice addresses."

### B.

#### **The Pertinent Provisions of Section 5 of the Interstate Commerce Act.**

(2) (a) It shall be lawful, with the approval and authorization of the Commission, as provided in subdivision (b)—

(i) for two or more carriers to consolidate or merge their properties or franchises, or any part thereof, into one corporation for the ownership, management, and operation of the properties theretofore in separate ownership; or for any carrier, or two or more carriers jointly, to purchase, lease, or contract to operate the properties, or any part thereof, of another; or for any carrier, or two or more carriers jointly, to acquire control of another through ownership of its stock or otherwise; or for a person which is not a carrier to acquire control of two or more carriers through ownership of their stock or otherwise; or for a person which is not a carrier and which has control of one or more carriers

to acquire control of another carrier through ownership of its stock or otherwise; or

(ii) for a carrier by railroad to acquire trackage rights over, or joint ownership in or joint use of, any railroad line or lines owned or operated by any other such carrier, and terminals incidental thereto.

(b) Whenever a transaction is proposed under subparagraph (a), the carrier or carriers or person seeking authority therefor shall present an application to the Commission, and thereupon the Commission shall notify the Governor of each State in which any part of the properties of the carriers involved in the proposed transaction is situated, and also such carriers and the applicant or applicants (and, in case carriers by motor vehicle are involved, the persons specified in section 305 (e)), and shall afford reasonable opportunity for interested parties to be heard. If the Commission shall consider it necessary in order to determine whether the findings specified below may properly be made, it shall set said application for public hearing, and a public hearing shall be held in all cases where carriers by railroad are involved. If the Commission finds that, subject to such terms and conditions and such modifications as it shall find to be just and reasonable, the proposed transaction is within the scope of subparagraph (a) and will be consistent with the public interest, it shall enter an order approving and authorizing such transaction, upon the terms and conditions; and with the modifications, so found to be just and reasonable: *Provided*, That if a carrier by railroad subject to this chapter, or any person which is controlled by such a carrier, or affiliated therewith within the meaning of paragraph (6), is an applicant in the case of any such proposed transaction involving a motor carrier, the Commission shall not enter such an order unless it finds that the transaction

proposed will be consistent with the public interest and will enable such carrier to use service by motor vehicle to public advantage in its operations and will not unduly restrain competition.

(c) In passing upon any proposed transaction under the provisions of this paragraph (2), the Commission shall give weight to the following considerations, among others: (1) The effect of the proposed transaction upon adequate transportation service to the public; (2) the effect upon the public interest of the inclusion, or failure to include, other railroads in the territory involved in the proposed transaction; (3) the total fixed charges resulting from the proposed transactions; and (4) the interest of the carrier employees affected.

(d) The Commission shall have authority in the case of a proposed transaction under this paragraph (2) involving a railroad or railroads, as a prerequisite to its approval of the proposed transaction, to require, upon equitable terms, the inclusion of another railroad or other railroads in the territory involved, upon petition by such railroad or railroads requesting such inclusion and upon a finding that such inclusion is consistent with the public interest.

(11) The authority conferred by this section shall be exclusive and plenary, and any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall have full power (with the assent, in the case of a purchase and sale, a lease, a corporate consolidation, or a corporate merger, of a majority, unless a different vote is required under applicable State law, in which case the number so required shall assent, of the votes of the holders of the shares entitled to vote of the capital stock of such corporation at a regular meeting of such stockholders, the notice of such meeting to include such purpose, or at a special meeting thereof called for such



purpose) to carry such transaction into effect and to own and operate any properties and exercise any control or franchises acquired through said transaction without invoking any approval under State authority; and any carriers or other corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the antitrust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchise acquired through such transaction. Nothing in this section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any State.

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# Supreme Court of the United States

OCTOBER TERM, 1947

No. 390

SEABOARD AIR LINE RAILROAD COMPANY,

*Appellant,*

*vs.*

JOHN M. DANIEL, as Attorney General of the State of  
South Carolina, and W. P. BLACKWELL, as Secretary  
of State of South Carolina,

*Appellees.*

APPEAL FROM THE SUPREME COURT OF THE STATE OF  
SOUTH CAROLINA

## REPLY BRIEF FOR APPELLANT

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January 7, 1948.

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# Supreme Court of the United States

OCTOBER TERM, 1947

SEABOARD AIR LINE RAIROAD COMPANY,

*Appellant,*

*vs.*

JOHN M. DANIEL, as Attorney General of  
the State of South Carolina, and W. P.  
BLACKWELL, as Secretary of State of  
South Carolina,

*Appellees.*

No. 390

APPEAL FROM THE SUPREME COURT OF THE STATE OF  
SOUTH CAROLINA

## REPLY BRIEF FOR APPELLANT

### Introduction

In this brief we have attempted to single out for reply the points made by the brief for Appellees which are really germane to the fundamental questions presented by this appeal. Essentially the main brief for Appellant meets every question of substance raised in the brief for the Appellees, but the untenable nature of various aspects of the argument for Appellees should be noticed. A considerable part of that argument strays from the real issues and is so clearly irrelevant as to require no argument in reply.



## APPELLEES' INTERPRETATION OF THE PROVISIONS OF SECTION 5 OF THE INTERSTATE COMMERCE ACT.

Appellees contend that it was neither the intent nor the effect of Section 5 of the Interstate Commerce Act to relieve Appellant of the requirement of separate incorporation in South Carolina but the reasoning is clearly unsound. The argument ignores the controlling words of Section 5 (2) (a) (i), making it "lawful with the approval and authorization of the Commission— \* \* \* for *any carrier*— \* \* \* to purchase \* \* \* the properties of another" if the Commission shall find under Section 5 (2) (b), as it did find, that the purchase "will be consistent with the public interest." The argument also ignores or misconstrues the provisions of paragraph (11) that the power conferred upon the acquiring carrier shall be "exclusive and plenary", that such carrier "shall have full power \* \* \* to carry such transaction into effect and to own and operate any property and exercise any control or franchises acquired through said transaction without invoking any approval under State authority" and that "any carriers \* \* \* participating in a transaction approved or authorized under the provisions of this section shall be \* \* \* relieved from the operation of the anti-trust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved \* \* \* and operate any properties \* \* \* acquired through such transaction."

No attempt is made by Appellees to explain away these specific provisions. On the contrary the argument seizes

upon certain clauses in paragraph (11), isolates them from their context and ignores the basic purposes of that paragraph.

Appellees first quote the language dealing with the machinery of a corporate merger or consolidation which refers to a majority vote of the holders of the shares of the consolidating or merging corporations "unless a different vote is required under State law", and apparently reason that this language recognizes the power of South Carolina to require separate incorporation. It is, of course, clear that all that Congress did was to recognize that the voting rights, if any, of stockholders of already existing state corporations involved in a consolidation or merger should be preserved. The recognition of stockholders' voting rights has nothing to do with the recognition of any right in a state to compel incorporation of a corporation in that state as a condition to operating railroads within that state.

It is also argued that the words "insofar as may be necessary" included in the language from paragraph (11) which we have quoted above is such a qualification of the powers conferred by Section 5 as to exclude from those powers the power to operate without incorporation in a state whose statutes purport to require incorporation. That argument is apparently based on the theory that the only "transaction" authorized in this case was the ownership by the new Seaboard, in some manner, directly or indirectly, of the properties of the old Seaboard, and that since that result might have been accomplished by the organization of a South Carolina subsidiary or by a merger of the new Seaboard with a South Carolina corporation, operation in South Carolina without incorporation was not "necessary."

It is, of course, clear that the "transaction" referred to in paragraph (11) is the specific transaction approved by the Commission, that is, in this case, the ownership and operation by the Virginia corporation of the South Carolina properties. It cannot be questioned that it was "necessary" for the Virginia corporation to be "relieved" from the "prohibitions" of the South Carolina statutes in order to carry out that transaction.

It is then further argued by Appellees that the concluding language of paragraph (11) that "nothing in this Section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation" was intended as an express affirmance of the State power to require separate incorporation. The brief for Appellees reasons that:

"It is plain that for the Act to have had the effect contended for by Appellant, it should have provided in expressed terms that railroad corporations should no longer be required to take out State charters or that the Interstate Commerce Commission should have been granted express power to relieve such corporations from taking out State Charters."

We take the words "State charters" from the foregoing quotation to mean a South Carolina charter. For, obviously, since paragraph (11) negatives the creation of a Federal corporation but permits the carrier applying to the Commission to acquire the properties of another, corporate existence under the law of some State is presumed. Otherwise, there would be no carrier entity capable of acquisition.

The brief then proceeds with the following complete non sequitur:

"It is submitted that if the findings and order of the Commission should be given the effect claimed by the Appellant herein, then the Virginia charter of said corporation, as so amended, would be in effect a Federal corporation."

Such reasoning is directly antithetical to the wording and plain intent of paragraph (11). In other words, the express negation in paragraph (11) of any creation of a Federal corporation is ignored as are the words of the paragraph, "any power granted by this Section to any carrier or corporation" to acquire, own and operate the properties of another upon a finding by the Commission that such acquisition, ownership and operation is in the public interest "shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any State."

Clearly, the "addition to" the powers of Appellant as the acquiring carrier "under its corporate charter" could only mean its Virginia charter as a railroad carrier. And by the express language of paragraph (11), the additional corporate power is to "carry such transaction into effect and to own and operate any properties without invoking any approval under State authority" and to be "relieved from the operation of all restraints, limitations and prohibitions of law" of the State of South Carolina.

The decisions cited under Section (3) of Appellant's main brief (pp. 35-40) establish the constitutional right of Congress to add to the powers of a State corporation to the extent considered desirable for the accomplishment of National ends.

That this purpose was in the mind of Congress when it amended Section 5 by the Transportation Act of 1940

appears from the Report of the Senate Committee on Interstate Commerce on the proposed 1940 amendments to the Interstate Commerce Act. That report states (Senate Report, Vol. 6, Nos. 226-500, Misc. II, 76th Congress, First Session):

"S.2009 Par. (10). Another change from existing law is to be found in paragraph (10) of Section 49 which grants carriers corporate powers under conditions set forth to carry into effect unification transactions approved by the Commission (see also paragraph (3)(a) of this Section)."

Paragraph (10) is identical with existing paragraph (11) of Section 5 except that (3)(a) above referred to is now in paragraph (11) as the proviso "nothing in this section shall be construed to create or provide for the creation directly or indirectly of a Federal Corporation etcetera."

The same Congressional understanding appears from the excerpts shown in the appendix to this brief from the hearings in 1939 before the Senate Committee on Interstate Commerce and the House Committee on Interstate and Foreign Commerce on various bills to amend the Interstate Commerce Act, held during the first session of the 76th Congress. Those excerpts contain statements on this precise point made by Judge R. V. Fletcher as spokesman for the Committee of Six, appointed by President Roosevelt to recommend extensive revisions of the Interstate Commerce Act.

## II

### **THE CASE OF TEXAS v. UNITED STATES IS CONTROLLING.**

The argument for Appellees in attempting to distinguish *Texas v. United States*, 292 U. S. 522, is demonstrably unsound, apart from the fact that that decision was ren-



dered in 1934, before Congress, by the amendments to Section 5 made by the Transportation Act of 1940, had expressly extended the powers conferred by that Section. In that case the State of Texas attacked the approval by the Interstate Commerce Commission of provisions of a lease from the Texarkana and Fort Smith Railway Company, a Texas corporation, of its properties in Texas and elsewhere to the Kansas City Southern Railway Company, a Missouri corporation, which permitted the lessee to abandon or remove from Texas the general offices, shops and other facilities of the lessor. The provision was attacked as being in violation of the statutes of Texas which confine to Texas corporations the right to "own or maintain any railways within the State", require every railroad company chartered by the State, "to keep and maintain permanently its general offices within this State", and prohibit any railroad company from changing, "the location of its general offices, machine shops or roundhouses, save with the consent and approval of the railroad commission" of Texas.

The Interstate Commerce Commission, relying on the provisions of the Emergency Transportation Act of 1933 (48 Stat. L. 211), found that consummation of the plan for the lease involving removal of the shops and offices from the State, unification of operations and elimination of duplications of work would result in an annual saving of \$81,000.00 and "will be in harmony with and in furtherance of the plan for the consolidation of railroad properties heretofore established by us and will promote the public interest".

It is strikingly significant that, as stated in the opinion of this Court: (*Texas v. U. S.*, 292 U. S. 522 at page 528)

"The State of Texas raises no question as to the constitutional power of the Congress to confer authority upon the Commission to approve the proposed lease with the stipulations under consideration. *The question is simply as to the scope of the authority which has been conferred,—the construction of the applicable statutory provisions.* These are found in § 5 of the Interstate Commerce Act as amended by the Emergency Railroad Transportation Act, 1933 (Title II, §§ 201, 202)." Emphasis supplied.

The significance of the italicized sentence is apparent from the following quotation from the opinion of the Supreme Court of South Carolina (R159)

"The defense raised no question as to the constitutional power of the Congress to confer authority upon the Commission to approve the purchase and reorganization of the old Seaboard Air Line Railway Company. The question here has to do simply with the scope of the authority which has been conferred."

Discussing the power of the Commission exercised in the Texas case, this Court, referring to the purposes of the broadening provisions of Section 5 of the Act, as amended by the Emergency Transportation Act of 1933, said at page 531:

"The criterion to be applied by the Commission in the exercise of its authority to approve such transactions \* \* \* is that of the controlling public interest. And that term as used in the statute is not a mere general reference to public welfare, but, as shown by the context and purpose of the Act 'has direct relation to adequacy of transportation service, to its essential conditions of economy and efficiency, and to appropriate provision and best use of transportation facilities'—*New York Central Securities Corp. v. United States*, supra."

"It is in the light of this criterion that we must consider the scope of the Commission's authority in relation to the provisions which are intended to relieve interstate carriers of burdensome outlays."

The brief for Appellees attempts to avoid the conclusive reasoning of the opinion in the Texas case on the ground that no question was involved as to any obligation to take out a Texas charter and that a lease, not an acquisition, was involved. But no serious attempt is made or could be made to avoid the fundamental basis of the decision, which was the power of the Commission to find that it was in the public interest to permit a Missouri corporation to lease, operate and maintain properties in Texas (contrary to the Texas statutes) and to remove the general offices and shops of the lessor company from Texas, despite an affirmative prohibition against such removal. The vigor with which the State of Texas assailed the action of the Commission and its attack upon the operation of Section 5 and the reasons asserted for that attack show that the attempted distinction by Appellees is without substance, and it is not material that the attack was concentrated on the removal of the offices, rather than on the lease itself.

### III

#### **THE ATTACK UPON THE COMMISSION'S FINDINGS.**

Under heading II (A) the brief for Appellees contends: (a) that the Interstate Commerce Commission did not really intend to find that it was necessary, as contemplated under the Interstate Commerce Act, in order to enable the Appellant Company to carry out its Order for the Appellant

Company to be relieved of the requirement of the South Carolina Constitution and Statute as to incorporating under the laws of the State, but (b) if it did so intend to find, its other findings contained in its Report and Order show that such alleged finding of necessity was arbitrary and unreasonable and hence void.

(a) There is nothing in Section 5 requiring the Commission to make any finding as a prerequisite to its Order that, to use the language of Appellees, "it was *necessary* for the Appellant to be relieved of the requirement of the South Carolina Constitution and Statute."

Section 5(2)(b) provides only that the Commission need find that the proposed acquisition by the new Seaboard Company of the properties of the old Company "will be consistent with the public interest." Upon such a finding the Carrier, under paragraph (11) "Shall have full power to carry such transaction into effect and to own and operate any property \* \* \* acquired through such transaction without invoking any approval under state authority" and be "*hereby* relieved from all other restraints, limitations and prohibitions of law, federal, state or municipal."

As pointed out in the original brief for Appellant, it was not even necessary for the Commission to find that compliance with the South Carolina requirements would impose an undue burden upon interstate commerce. It would have been sufficient for the Commission to find the proposed acquisition to be in the public interest and to have stopped there. The fact that it went further does not help the appellees.

This point was so fully argued in Appellant's brief that repetition is unnecessary.

(b) Assuming, however, that a finding as to the burden on interstate commerce was necessary under Section 5, Appellees argue that the Commission either did not intend to find, or that its Report is not susceptible of being construed as a finding, that compliance with the South Carolina law would impose an undue burden upon commerce. Say the appellees:

"It is submitted that it was not the purpose and intent by said finding directly to relieve the company of its obligation to comply with such requirement. At most, it was an invitation to the company to go into some appropriate court, as the company afterwards did, to seek some relief and to show therein that in fact such relief was necessary to enable it to carry into effect the transactions approved and provided for."

But the Commission plainly did find conclusively that an undue burden would result from compliance with the South Carolina law. It said unequivocally that it would clearly be an unnecessary and undue burden on interstate commerce for the new Company to be subjected to the continuing expense of over \$300,000 to maintain a separate corporation to own and operate the South Carolina properties. It said, in effect, (R. 110-112) that for the Seaboard to form a separate South Carolina corporation and then consolidate with the Virginia corporation, resulting in a multiple corporation of Virginia and South Carolina "would result in substantial expense." Finally, quoting from the opinion in *Texas v. United States*, 292 U. S. 522, that "The criterion to be applied is that of the controlling public interest" and that the Commission in administering the provisions of Section 5 must do so with a view to carry-



ing out the declared policy of Congress to promote economical and efficient service and the fostering of sound economic conditions. in transportation, the Commission stated that corporate simplification wherever possible, is in accord with that policy.

It further found affirmatively that compliance with the South Carolina law "would not accord with the National transportation policy and would not be consistent with the public interest" (R. 113).

The original brief for Appellant (pp. 34-35) cites the decisions of this court as to the conclusiveness of the findings of the Commission. The effort of Appellees to attack these findings is nothing less than a collateral attack which is ruled out by the following decisions: *Illinois Central R. Co. v. Public Utilities Comm.*, 245 U. S. 493; *Shields v. Utah Idaho Central R. Co.*, 305 U. S. 177; *Lambert Run Coal Co. v. Baltimore & O. R. Co.*, 258 U. S. 377; *Venner v. Michigan Central R. Co.*, 271 U. S. 127; *Texas v. Interstate Commerce Commission*, 258 U. S. 158.

The issue as to collateral attack was raised directly by Appellant in the court below by Section No. 3 of its demurrer (R. 148) to Section Fifth of the answer of the Appellees (R. 141-142). That section of the answer in effect, denied the truth of the findings of the Commission. Section 3 of the demurrer explicitly challenged the denials as constituting a collateral attack on the findings.

Appellant has conceded throughout, as indeed it did by filing its suit, the right of the South Carolina Court to pass upon the extent of the powers of the Interstate Commerce Commission under Section 5 to authorize the acquisition by the new Seaboard Company of the South Carolina properties. But Appellant has consistently challenged the right of the South Carolina Court in this proceeding to go behind

the findings of the Commission. The point was especially stressed by Appellant in its brief on reargument in the court below in response to the question raised in the Order directing reargument (R. 153-155).

That Appellees attempt to attack the truth of the findings themselves appears from the following statement in their brief:

"The Appellees further denied the accuracy of the findings of fact contained in the Order of the Commission undertaking to set out the cost of conforming to the Constitution and laws of South Carolina and denied that compliance with the Constitution and laws of South Carolina would place an undue burden on Interstate Commerce."

As pointed out in the original brief for Appellant, the opinion of the South Carolina Court (R. 157) stated the major issue to be

"Whether the Report and Order of the Interstate Commerce Commission is valid under Section 5 of the Interstate Commerce Act to relieve plaintiff from compliance with the constitutional and Statutory provisions of South Carolina \* \* \* And further did the Interstate Commerce Commission go beyond its jurisdiction into a field into which it was not directed by the Act of Congress, in undertaking to say in what State a railroad corporation should be chartered and in what state it should not be chartered, regardless of the Constitution and Statute of any particular State."

It is apparent from this language of the opinion of the South Carolina Court that it clearly had before it the question of the power of the Commission to act as it did. The fact that the Court misinterpreted the Report of the Com-

mission as attempting to say in what State the new Seaboard Company should or should not be incorporated is one of the very errors which this appeal seeks to have this Court rectify.

As pointed out in the original brief for Appellant, the Court below aggravated the error by attempting to make a finding directly contrary to that of the Commission, saying (R. 162)

"As shown by the report and order of the Commission, the cost incident to obtaining a South Carolina charter is negligible as compared with the millions of dollars in value of the physical properties and the millions of dollars of income owned and controlled by the plaintiff. It might be inconvenient or undesirable to obtain a South Carolina charter, but we do not see how such requirement would constitute a burden on interstate commerce."

Appellees make the charge that Appellants conceded the jurisdiction of the South Carolina Supreme Court in this case and are now "trifling" with the South Carolina Supreme Court by questioning its power to review the findings of the Interstate Commerce Commission. Obviously the question of jurisdiction is quite different from the question of the right to review findings. In any case, Appellants' position was clearly stated to the Supreme Court of South Carolina, as appears from the following sentence contained in its brief on reargument before the Supreme Court of South Carolina: "In other words this Court in this case can and must determine whether Section 5 of the Interstate Commerce Act is constitutional and whether the order of the Commission is within the Act, *but this Court cannot review the administrative findings that the Commission made or the*

*reasons that it gave in exercising its power under the Act."*  
 [Emphasis supplied.]

#### IV

#### **THE ASSERTION THAT APPELLANT HAS RAISED POINTS IN THIS COURT NOT PRESENTED BELOW.**

Appellees attempt to say that Appellant did not, in its complaint as originally filed, ~~make the point~~ that Section 5 by its own terms conferred the power on Appellant, upon a finding that the proposed transaction was in the public interest, to acquire and operate the railroad properties in South Carolina. But it is clear from the complaint (R. 2-18) that the appellant from the beginning asserted its rights under Section 5, and it is additionally entirely clear that the essential issues upon this appeal were raised in the court below and considered by it. The point as to the self-executing nature of Section 5 is not only implicit in the complaint itself, but it was clearly raised in the original brief filed by Appellant in the South Carolina Court and in its brief on reargument. The opinion of that Court fully discusses the purposes and effect of Section 5 even though it misinterpreted the effect of the Commission's Report and Order,—action for which the Appellant can certainly not be held responsible.

Complaint is also made that points (3) and (5) in the original brief for Appellant were not raised below. Point (3) is not confined to the principle that Appellant is an instrumentality of the Federal government but also emphasizes that Appellant is an instrumentality of interstate commerce. The argument on this point is clearly inherent in the status of Appellant as an agency of the National

Transportation System and thus an instrument of Federal policy under the declaration of policy announced by Congress in the enactment of the Transportation Act of 1940 that the legislation was directed "to the end of developing, coordinating and preserving a National Transportation System \* \* \* adequate to meet the needs of the commerce of the United States, of the Postal Service and of the National Defense" (Act. Sept. 18, 1940, 54 Stat. 929). The argument is likewise appropriate in connection with the argument under heading (4) in Appellant's original brief that the South Carolina prohibitions are in and of themselves obstructions to and burdens upon interstate commerce. The following quotation from the opinion in *Texas v. United States, supra*, is significant in this connection:

"The State urges that in the course of the passage of the Transportation Act, 1920, a provision for Federal incorporation of railroads was struck out. But while railroad corporations were left under State charters, they were still instrumentalities of interstate commerce and, as such, were subjected to the paramount federal obligation to render the efficient and economical service required in the maintenance of an adequate system of interstate transportation."

Moreover the decisions reviewed under heading (3) are conclusive of the Constitutional right of Congress to confer on state corporations powers additional to those conferred by State charters to the extent even of overriding state obstructions.

It being clear that Congress intentionally gave effect to this principle in selecting the language of paragraph (11)



of Section 5, when amending that paragraph by the Transportation Act of 1940, it can scarcely be believed that this Court will not consider the point for the light that it may throw on a proper interpretation of Section 5.

Respectfully submitted,

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## APPENDIX A

Excerpts from Hearings Before The Senate Committee 76th Congress, First Session, on Interstate Commerce on S. 1310 and S. 2016—Bills to Amend The Interstate Commerce Act and for Other Purposes; S. 1869—A Bill to Protect Interstate Commerce from The Dangers of unsound Financial Structures, etc., and S. 2009—A Bill to Amend the Interstate Commerce Act, as Amended by Extending its Application to Additional Types of Carriers, etc. Also, Excerpts from Hearings Before The House Committee on Interstate and Foreign Commerce, 76th Congress, First Session on H. R. 2531.

These hearings eventuated in the formulation and passage of the Transportation Act of 1940 which amended and enlarged the Interstate Commerce Act.

The following excerpts deal with the amendments to Section 5, enlarging the corporate powers in connection with consolidations and acquisitions.

Senate Committee Hearings—Statement of Judge R. V. Fletcher pp. 114-115 (Judge Fletcher was the spokesman of a Committee of 6 appointed by President Roosevelt, consisting of M. W. Clement, Carl R. Gray, George M. Harrison, B. M. Jewell, Ernest E. Norris and D. B. Robertson).

“Those are the broad general standards laid down in the bill. The only other thing I wish to say about this particular language is to call attention to a very important provision which is now paragraph 11 on page 159. The purpose of that, Mr. Chairman, is to give to the Interstate Commerce Commission the power to enlarge the corporate power of the carrier if that is necessary to accomplish the particular consolidation. Instances have arisen in which the charter of the railroad granted by the State, or

under some State law, would prohibit the doing of the thing which the Interstate Commerce Commission finds to be in the public interest, not merely because of the operation of antitrust laws or anti-monopoly statutes—that is taken care of in another place—but because there is a lack of corporate power in the carrier, functioning as it does under authority granted by the State law, to accomplish the things that are there sought.

“Section II undertakes to supply that deficiency by having the Congress, acting through the Interstate Commerce Commission, bestow upon the carrier corporate power to accomplish the thing which is there thought to be carried out.

“Someone will say, “Can Congress increase the corporate power of a railroad company?”. It can. It has been repeatedly held by the Supreme Court of the United States that under the authority which Congress has to regulate interstate commerce, it can go so far as to add to the corporate power of the railroad, if necessary to carry out the purposes of Congress.

“Senator Austin. Have you a brief on that point which you are putting into the record?

Mr. Fletcher. I can very easily supply one.

Senator Austin. I think a citation of those cases would be useful.

The Chairman. We will be very glad to have you supply a brief.

Mr. Fletcher. I shall be very glad to supply it.

“One of the cases involved, Senator, was a case wherein the Central Pacific Railroad was authorized by Congress to extend its line beyond the State of California into the State of Nevada, as I remember. The question was, could Congress say to a railroad organized under the laws of California that it could actually extend its line beyond the

limits and borders of the State when its charter did not permit it? The Supreme Court held, in an opinion which I think was written by Mr. Justice Miller, that in the exercise of its power to regulate commerce, Congress could go that far. I shall be glad to submit a memorandum of those cases.

"The Chairman. There is no question that in some instances the transportation system of the United States has been handicapped by some of the provisions of State laws.

"MR. FLETCHER. That is true. However, I am here dealing with an authority which involves a little different question from that of a restrictive State law. I am dealing with the question of corporate authority."

House Committee Hearings—Statement of Judge R. V. Fletcher, pp. 682-683.

#### "EFFECT OF PROPOSED CONSOLIDATION LAW"

"THE CHAIRMAN. Mr. Fletcher, there is one question that I would be interested in, and that is to know what your judgment is as to what we can reasonably anticipate would be the practical result of enacting consolidation legislation such as is proposed before the committee.

"MR. FLETCHER. I think that the practical result would be to promote consolidations if the railroads were freed from the restrictions that I mentioned—standards in the act—which have proven to be impracticable. This would be true particularly, if you enact another provision here which I had not reached in my discussion, but which I will now mention, namely, the provisions found in subsection 10 of this draft that I have handed to the committee. On page 6, it is proposed that "the authority conferred by this section shall be exclusive and plenary, and any

carrier or corporation participating in or resulting from any transaction approved by the Commission under the authority conferred by said section, shall have full corporate power" to carry such transaction into effect, go on and consummate the transaction. That is a very useful provision, because sometimes now even after you get the consent of the Interstate Commerce Commission you are restricted by the limitations placed upon you by State laws where you are incorporated, the laws of the State under which you are operating or by provisions of your own charter which have been granted in some cases by the legislature.

I do not mean now, Mr. Chairman, to say that under present law you are not freed from the restrictions of the State laws of the antitrust type, but I am talking about corporate power. The purpose of this section here is to have the Congress confer corporate power upon the railroads to consummate the plan which the Interstate Commerce Commission has approved.

THE CHAIRMAN. Would that in effect make it a Federal Corporation?

MR. FLETCHER. No, sir; it does not make it a Federal corporation. I remember many years ago when I had occasion to investigate the power of Congress to allow a State organized railroad corporation to enter another State. That was in a case out in the Pacific coast territory and I found that the Supreme Court of the United States had held that Congress, under its power to regulate commerce, could actually confer power upon the Central Pacific Railroad to build its line into a State beyond the State of its original incorporation in the exercise of the Federal power over interstate commerce. That does not make it a Federal corporation. It just



took the State corporation and put another story on it, so to speak, and added some additional authority.

THE CHAIRMAN. Well, that would eliminate any restriction in an action of that kind that a State law might impose.

MR. FLETCHER. It would if that State law restriction stood in the way of carrying out the consolidation which the Commission had approved.

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# Supreme Court of the United States

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No. 390

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SEABOARD AIR LINE RAILROAD COMPANY, AP-  
PELLANT,  
*versus*

JOHN M. DANIEL, AS ATTORNEY GENERAL OF THE STATE  
OF SOUTH CAROLINA, AND W. P. BLACKWELL, AS SEC-  
RETARY OF STATE OF SOUTH CAROLINA, APPELLEES.

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APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA

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## BRIEF FOR APPELLEES

---

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# Supreme Court of the United States

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No. 390

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SEABOARD AIR LINE RAILROAD COMPANY, AP-  
PELLANT,  
*versus*

JOHN M. DANIEL, AS ATTORNEY GENERAL OF THE STATE  
OF SOUTH CAROLINA, AND W. P. BLACKWELL, AS SEC-  
RETARY OF STATE OF SOUTH CAROLINA, APPELLEES.

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APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA

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## BRIEF FOR APPELLEES

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### INTRODUCTORY SUMMARY

This suit was instituted in the original jurisdiction of the South Carolina Supreme Court for the purpose of obtaining relief from the South Carolina constitutional and statutory provisions requiring all railroad corporations operating within the State to be incorporated under the laws of the State.

The Complaint alleged that the Interstate Commerce Commission had authorized the appellant, which was a Vir-

ginia corporation, to acquire and operate all the railroad property of the old Seaboard Air Line Railway Company, including that in the State of South Carolina, and also that the said Commission, while finding that the cost of complying with the South Carolina provisions would not be unduly burdensome, nevertheless found that the delays and needless expense incident thereto did not accord with the national transportation policy.

The Answer of the defendants-appellees admitted that the Interstate Commerce Commission had made the findings as shown in the report attached to the Complaint but denied the accuracy of its findings and conclusions and alleged that the appellant company could comply with the order and report of the Commission without overriding the South Carolina statutory and constitutional provisions requiring incorporation under the laws of the State.

Appellant company demurred to the Answer, thereby admitting the allegations of fact contained in the Answer. No testimony was taken and the case was heard upon the issues raised by the pleadings.

The Supreme Court of South Carolina refused the relief demanded by the appellant, holding in effect that under the Interstate Commerce Act, as amended by the Transportation Act, the Interstate Commerce Commission had no power to relieve the appellant company from complying with the South Carolina statutes, and further that the said report of the Commission itself showed that the cost of complying with the South Carolina statutes did not constitute an undue burden upon interstate commerce.

It is submitted that the judgment of the South Carolina Supreme Court should be affirmed and this appeal dismissed because:

(1) The Interstate Commerce Act, as amended by the Transportation Act of 1940, prohibits "the creation, directly or indirectly, of a federal corporation", recognized the necessity for such corporations to comply with "applicable state law" and did not intend to affect state laws requiring such corporations to be chartered under state laws; nor did said Act authorize the Interstate Commerce Commission to relieve railroad corporations from compliance with such state laws as to the incorporation of railroad corporations.

*U. S. Code Annotated, Title 49, 1946 Cumulative Supplement, page 68;*

*Texas v. United States, 292 U. S., 522.*

It is the general principle that the corporate powers of corporations are limited to the states of their creation and that their rights to operate in other states are subject to the terms and conditions imposed by such other states.

23 American Jurisprudence, pp. 27-28.

(2) The Interstate Commerce Commission, in its report and order, found in effect that it was not clear that the cost of complying with the South Carolina statutory requirements, that is, an initial expense of \$71,800.00 and a continuing expense thereafter of \$1,000.00 a year "would be unduly burdensome" and while it found that the "needless expense and delay" incident to such compliance "would not accord with the national transportation policy", such finding did not really amount to a finding that compliance with the South Carolina statutes would constitute an undue burden upon interstate commerce; but if it did so intend to find, such finding was unsupported by its other findings and hence arbitrary and void.

(3) The last three points raised in the appellant's argument (pp. 35-49) were not really raised or elaborated by



appellant in its argument in the court below, points 3 and 5 not being raised at all, and hence should not be considered by this Court; but in any event, it is submitted that there is no merit in the contentions of appellant company that it is relieved of compliance with the state constitutional and statutory requirements irrespective of the order and findings of the Interstate Commerce Commission. The appellant is not in fact an instrumentality of the federal government, as alleged in point No. 3 (pp. 35-40) and it is in fact engaged in intrastate as well as interstate commerce (see appellant's argument, pp. 41-48), and as to point No. 5, the State of South Carolina has a perfect right to classify railroad corporations separately from other foreign corporations by reason of their essentially different characteristics.

44 American Jurisprudence, pp. 244-245.

(4) The South Carolina constitutional and statutory requirements as to railroad corporations being incorporated in the State of South Carolina is a valid exercise of state's powers over foreign corporations engaged in both intrastate and interstate commerce in the State of South Carolina.

### **STATEMENT AS TO THE FACTS**

This suit was commenced by the appellant railroad company in the original jurisdiction of the South Carolina Supreme Court, by Complaint and Rule to Show Cause, dated August 7, 1946, for the purpose of obtaining relief from the constitutional and statutory provisions of South Carolina requiring railroad corporations to be incorporated under the laws of the State (R. pp. 1-18).

In the Complaint it was alleged in effect that the Interstate Commerce Commission had undertaken to relieve the appellant company from compliance with such consti-



tutional and statutory provisions of the State of South Carolina, and the original jurisdiction of the Supreme Court of South Carolina was invoked for the purpose of determining particularly whether appellant was relieved from such prohibitions "as a legal consequence of the approval and authorization by the Interstate Commerce Commission in its Report and Order aforesaid, by virtue of the provisions of Section 5 (11) of the Interstate Commerce Act (49 U. S. C. A. 5(11) )" (R. P. 17).

In the Complaint certain of the findings of the Interstate Commerce Commission were quoted (R. pp. 6-12) and attached to the Complaint, as an Exhibit, was a copy in full of the Order of the Commission relied upon by appellant (R. pp. 57-134), as well as a copy of the Supplemental Application and Amendment (R. pp. 23-56). The Commission in its Report found in effect that the revenues for 1945 assigned to the 736 miles of appellant's railroad system in South Carolina amounted to over \$25,000,000.00 (R. p. 111—F. 422); that the cost of complying with the South Carolina statutes for incorporation were estimated, as an initial outlay, at \$71,800.00 and a continuing expense thereafter at approximately \$1,000.00 per year (R. p. 110—F. 438); and that it was not clear that such expense "would be unduly burdensome" (R. pp. 111-112, ff. 443-445). The Commission further found, under its interpretation of the *Texas case* (292 U. S., 522), that "the delays and needless expense" incident to complying with the South Carolina statutes "would not accord with the national transportation policy and would not be consistent with the public interest" (R. p. 113, F. 450); but that the new company would be relieved from "the restraints, limitations and prohibitions of state law only insofar as may be necessary to enable it to carry into effect the transactions approved and provided for" (R. p. 113, F. 451).

The Answer of the defendants-appellees admitted that the Interstate Commerce Commission had made the order and report and findings referred to in the Complaint, but alleged in effect that the company could comply with the Order of the Commission "without conflicting with the Constitution and Statutory Laws of the State of South Carolina" and further that the Order of the Interstate Commerce Commission, insofar as it undertook to override the Constitution and laws of the State was null and void and beyond the scope and powers of the said Commission (R. p. 140). Appellees further alleged that the Attorney General of the State, who is charged with the defense of the interest of the state in such matters, was not notified of any such application or proceeding before the Interstate Commerce Commission (R. p. 141) (although admitting that the Governor of the state was so notified); and the appellees further denied the accuracy of the findings of fact contained in the Order of the Commission undertaking to set out the cost of conforming to the Constitution and laws of the State of South Carolina, and denied that compliance with the Constitution and laws of the State of South Carolina would place an undue burden on interstate commerce (R. p. 142). Appellees further alleged in their Answer that to permit plaintiff-appellant to do business in South Carolina without conforming to the provisions of the Constitution of the State and its statutes, would be denying to the state and its citizens many of the rights and privileges to which they were entitled (R. p. 144); and further that the appellant company was engaged in both intrastate and interstate commerce and that compliance with the provisions of the South Carolina Constitution and statutes would not conflict with the provisions of the interstate commerce Act or with the valid

portions of the Order of the Interstate Commerce Commission.

The appellant company filed a Demurrer to the Answer of the appellees, claiming in effect that by reason of the Order and Report of the Interstate Commerce Commission none of the defenses or issues raised by the Answer were available to the appellees (R. pp. 147-151). In the Demurrer, appellant also contended that the Report and Order of the Commission is conclusive unless and until set aside in a direct proceeding for that purpose instituted pursuant to the provisions of Section 207(1) of the Judicial Code of the United States (28 U. S. C. A. 41(27)) (R. p. 148). It also claimed that the constitutional and statutory provisions referred to imposed an unreasonable and undue burden on interstate commerce irrespective of the findings and conclusions of the Report and Order of the Commission (R. pp. 150-151).

Under the South Carolina practice, a demurrer admits all of the well-pled allegations of fact contained in the pleading demurred to. See the following, among many other cases, supporting this principle:

*Spigner v. Ins. Co.*, 148 S. C. 249, 252, 146 S. E. 8, 9;

*State v. Broad River P. Co.*, 177 S. C. 240, 266, 181 S. E. 41, 52;

*Pres'n C. v. York Depository*, 203 S. C. 410, 415, 27 S. E. (2d) 573;

*McLeod v. Sou. Ry. Co.*, 188 S. C. 14, 21, 198 S. E. 425;

*Ward v. Town of Darlington*, 183 S. C. 263, 270, 190 S. E. 826;

*Oliveros v. Henderson*, 116 S. C. 77, 81, 106 S. E. 865;

*Henderson v. McMaster, Ins. Commis.*, 104 S. C. 268, 272, 88 S. E. 645;

Interstate Commerce Act, Section 5;

Constitution, Article 1, Section 8, Clause 3.

The case was argued before the South Carolina Supreme Court twice.

At the first argument, the principal issue was whether or not by reason of the Report and Order of the Interstate Commerce Commission, the appellant company was relieved from compliance with the South Carolina constitutional and statutory provisions requiring incorporation under the laws of the State and whether the Interstate Commerce Commission went beyond its jurisdiction in undertaking to say in what state, in the public interest, a railroad corporation should be chartered (R. p. 154).

The Court adverted to the Section (208) of the United States Judicial Code (28 U. S. C. A., Section 46), providing that suits to set aside orders of the Interstate Commerce Commission must be brought in the Federal District Court and, therefore, set the case down for re-argument on this point, saying:

"The briefs submitted by counsel for the plaintiff and the defendants do not bear, except indirectly, upon the question whether under the federal law this court should entertain jurisdiction at all to pass upon the validity of an order of the Interstate Commerce Commission such as appears to be presented here. It would seem to follow logically that if jurisdiction exists to declare the order valid, it also exists to pronounce it invalid, and hence set aside and annulled—this latter alternative being prohibited by the federal law."

Upon the re-argument, which occurred at the March, 1947, term of Court, it was conceded by counsel for appel-



lant company that the South Carolina Supreme Court had "jurisdiction to determine whether the order of the Commission was a valid or invalid exercise of power under Section 5 of the Interstate Commerce Act" (R. p. 159). The South Carolina Supreme Court, after adverting to the relevant provisions of the Interstate Commerce Act (Section 5, Paragraph 11) (R. pp. 159-160)), in a well-reasoned decision, held in effect, as we interpret the decision, (1) that the Commission had no power under the said Act to relieve the appellant from compliance with the state laws as to incorporation (R. pp. 160-161), and, further (2) that the Report itself shows that the expense incident to complying with the state laws did not constitute an undue burden upon interstate commerce, saying *passim*:

"We think it clear from the whole quoted section that the prohibition against the creation, directly or indirectly, of a federal corporation likewise excluded any power to control, limit or prohibit incorporation under state laws. And it follows that no power was conferred upon the Commission to say in what state or states a railroad company may be incorporated or not incorporated.

"The Interstate Commerce Act not only fails to specifically grant authority to the Commission to deal with the matter (fol. 161) of charters, but it may be inferred, as we have pointed out, from the language used that the purpose of congress was to prohibit the Commission from directly or indirectly determining what state or states a railroad company should be incorporated in.

"Unquestionably, the Commission acted within the scope of its authority in passing upon and approving the details of the reorganization plan of the Seaboard Air Line Railway, its method of financing, and whether the reorganization plans were for the best interest of interstate commerce. But it is far from clear that the Act conferred upon it the power to discriminate, in



effect, against any state or states by adjudging in what state a charter should be granted.

"The plaintiff contends that to comply with the statutes of South Carolina and the constitutional provision requiring that railroads operating in this state should obtain a charter, would impose an undue burden on interstate commerce.

"As shown by the report and order of the Commission, the cost incident to obtaining a South Carolina charter is negligible as compared with the millions of dollars in value of the physical properties and the millions of dollars of income owned and controlled by the plaintiff. It might be inconvenient or undesirable to obtain a South Carolina charter, but we do not see how such requirement would constitute a burden on interstate commerce."

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It is appellees' position that the aforesaid judgment and opinion of the South Carolina Supreme Court is entirely sound, that the conclusions therein contained are well founded, and hence this appeal should be dismissed.

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It is to be noted that this case comes before this Honorable Court without any evidence having been taken in the Court below but upon the issues raised by the pleadings, in which the appellees have denied the accuracy of the essential findings of fact by the Interstate Commerce Commission upon which the Complaint was based, and which denials in view of the Demurrer admitting the allegations of fact contained in the Answer, are to be accepted as valid and binding, both as to the Court below and by this Honorable Court.

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It is our primary position that Congress did not intend, either by its own enactments (that is, by the Interstate Commerce Act as amended by the Transportation

Act of 1940), or to authorize the Interstate Commerce Commission, to relieve the appellant company from compliance with the laws of the State of South Carolina or any other State as to incorporation under the laws of any such state. It is our secondary position (a) that the Interstate Commerce Commission's Order and Report did not in reality intend to find that relief from the South Carolina statutes requiring state incorporation was actually necessary or that compliance therewith would be an undue burden upon interstate commerce, but (b) that if it did so intend to find, its other findings and the undisputed facts show that such finding was arbitrary and unreasonable and hence invalid.

## ARGUMENT

### I

Interstate Commerce Act did not undertake to relieve Appellant Corporation from complying with State laws as to incorporation.

It is submitted that the terms of the Interstate Commerce Act and also of the Transportation Act show that Congress did not intend to relieve railroad corporations from compliance with state laws as to the chartering or incorporation of railroad corporations or to authorize the Interstate Commerce Commission to relieve railroad corporations from such compliance.

Section 5 of the Interstate Commerce Act (49 U. S. C. A. 5) Par. 11;

*Panhandle Eastern Pipe Line Company v. The Public Service Commission*, (Decided December 15, 1947; Reported in United States Law Week, Section 4, 16 L. W. 4051);

*Texas v. United States*, 292 U. S. 522, 78 L. Ed. 1402;

44 American Jurisprudence, Page 543.

See also:

*Eagle Ins. Co. v. Ohio*, 153 U. S. 446, 38 L. Ed. 778, 14 S. Ct. 868;

*International & G. N. R. Co. v. Anderson County* (Tex. Civ. App.) 174 S. W. 305, affirmed in 246 U. S. 424, 62 L. Ed. 807, 38 S. Ct. 370;

*Chicago, B. & Q. R. Co. v. Illinois*, 200 U. S. 561, 592, 59 L. Ed. 596, 609, 26 S. Ct. 341, 4 Ann. Cas. 1175;

*Napier v. Atlantic Coast Line R. Co.*, 272 U. S. 605, 71 L. Ed. 432, 47 S. Ct. 207;

*Illinois C. R. Co. v. Public Utilities Commission*, 245 U. S. 493, 510, 62 L. Ed. 425, 438, 38 S. Ct. 170, P. U. R. 1918-C, 279;

*Missouri, K. & T. R. Co. v. Harris*, 234 U. S. 412, 419, 58 L. Ed. 1377, 1382, 34 S. Ct., 790;

*Savage v. Jones*, 225 U. S. 501, 533, 56 L. Ed. 1182, 1194, 32 S. Ct. 715;

*Cummings v. Chicago*, 188 U. S., 410, 430, 47 L. Ed., 525, 531, 23 S. Ct., 472.

It has been recognized by this Honorable Court by the above-cited case of *Panhandle Eastern Pipe Line Company v. The Public Service Commission* (decided December 15, 1947) that the states' regulatory power as to interstate commerce is excluded only from the field explicitly occupied by Congress, and that the general rule is that state regulation continues except when Congress has expressly taken over. It is also the general rule that the intention of Congress to exclude the exertion of state regulatory power must have been clearly manifest before it can be said that

Congress has occupied the field or that it intended to delegate such superior power to the Interstate Commerce Commission. (See the cases above cited):

- 153 U. S. 446, 38 L. Ed. 778, 14 S. Ct. 868;
- 174 S. W. 305, affirmed in 246 U. S. 424, 62 L. Ed. 807, 38 S. C. 370;
- 200 U. S. 561, 592, 50 L. Ed. 596, 609, 26 S. Ct. 341, 5 Ann. Cas. 1175;
- 272 U. S. 605, 71 L. Ed. 432, 47 S. Ct. 207;
- 245 U. S. 493, 510, 62 L. Ed. 425, 438, 38 S. Ct. 170, P. U. R. 1918-C 279;
- 234 U. S. 412, 419, 58 L. Ed. 1377, 1382, 34 S. Ct. 790;
- 225 U. S. 501, 533, 36 L. Ed. 1182, 1194, 32 S. Ct. 715;
- 188 U. S. 410, 430, 47 L. Ed. 525, 531, 23 S. Ct. 472.

In the light of the above-cited principles, it is important to note the exact language and provision of the Transportation Act of 1940, as follows: (See U. S. Code Annotated, Title 49, 1946 Cumulative Supplement, Page 68):

"(11) The authority conferred by this section shall be exclusive and plenary, and any carrier or corporation participating in or resulting from any transaction approved by the Commission thereunder, shall have full power (with the assent, in the case of a purchase and sale, a lease, a corporate consolidation, or a corporate merger, of a majority, **unless a different vote is required under applicable State law, in which case the number so required shall assent**, of the votes of the holders of the shares entitled to vote the capital stock of such corporation at a regular meeting of such stockholders, the notice of such meeting to include such purpose, or at a special meeting thereof called for such

purpose) to carry such transaction into effect and to own and operate any properties and exercise any control or franchises acquired through said transaction without invoking any approval under State authority; and any carriers or other corporations, and their officers and employees and any other persons, participating in a transaction approved or authorized under the provisions of this section shall be and they are hereby relieved from the operation of the antitrust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved or provided for in accordance with the terms and conditions, if any, imposed by the Commission, and to hold, maintain, and operate any properties and exercise any control or franchises acquired through such transaction. **Nothing in this section shall be construed to create or provide for the creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any state. (Emphasis ours.)**

At the time of the enactment of the above provision by the United States Congress, it must be presumed to have been well known to the United States Congress that the matter of the incorporation of railroad companies was one wholly left to the jurisdiction and control of the various states, and also that many states required railroads to be incorporated under their own laws. In this very case both the State of South Carolina and the State of Virginia require railroad corporations to be incorporated under their laws (See Virginia Code 1942, Vol. 2, p. 2865). Notwithstanding such knowledge, the United States Congress, by the terms of the above Act, expressly provided that the state corporation laws must be recognized and that in case of the merger or consolidation of corporations, the "ap-



plicable state law" regulating the number of votes required should be followed; and further, that nothing contained in such section should "be construed to create or provide for the creation, directly or indirectly, of a federal corporation". We think it clear from a reading of the foregoing statute that Congress did not intend in any way to relieve railroad corporations from complying with state laws requiring incorporation. Also, the *Texas Case* above cited, which is heavily relied upon by the appellant corporation, expressly recognized that "railroad corporations were left under state charters". (78 L. Ed., 1411.)

It is submitted that the primary purpose of the foregoing section of the Act was to relieve railroad corporations particularly from the many state statutes prohibiting the acquisition of one railroad by another and the merger and consolidation of such railroads and from the antitrust laws. It was no part of the purpose of such statutes to trench upon the well-established doctrine that the corporate existence of a corporation is a matter which is left entirely to the several states. (See 23 American Jurisprudence, pp. 27-28, 32-33.)

Appellant argues in its brief (pp. 17-27) that the authority conferred by Section 5(2) (a) (1) and 5(2) (b), as well as by the above-quoted Section of the Act 5(11), to such a railroad corporation to acquire and operate railroad property, in itself carries authority to operate regardless of the state laws. It is submitted, however, that the only true and reasonable interpretation to be placed upon the said provision is that the authority therein conferred is subject to an implied condition, that the company shall comply with all proper state laws, that is to say, with all state laws which do not constitute an undue burden upon interstate commerce.

In the light of the foregoing principle, it is plain that for the Act to have had the effect contended for by appellant, it should have provided in express terms that railroad corporations should no longer be required to take out state charters, or that the Interstate Commerce Commission should have been granted express power to relieve such corporations from taking out state charters.

On the contrary, the Act expressly provided that the section should not be construed to create or to provide for the creation, directly or indirectly, of a federal corporation. It is submitted that if the findings and order of the Commission should be given the effect claimed by the appellant herein, then the Virginia charter of the said corporation, as so amended, would be in effect a federal corporation. Moreover, it is clear, it is submitted, that the Act did not in any way intend to relieve such a company of the necessity for complying with such a state law as to incorporation.

As a matter of fact, the state law expressly provides that any railroad company, even though incorporated under a foreign state, may merge and consolidate with any other railroad company organized and operated under the laws of the state (see Section 8285, as quoted in Appellant's Brief pp. 55-56), so that there is in reality no real prohibition against the appellant operating in the State of South Carolina, but only a method whereby it may comply with the state constitution and statutes designed to promote the welfare and well-being of the state and its citizens.

It is also to be noted that the Act, by its terms, undertakes to relieve such railroad corporations from "restraints, limitations and prohibitions of law" only "insofar as may be necessary to enable them to carry into effect transactions so approved or provided for", and in this case

it must be apparent that it was, and is, not necessary for the appellant company to be relieved from compliance with the South Carolina provisions as to incorporation in order for the appellant to carry out transactions provided for in the order of the Commission. In fact, as already pointed out, the Commission itself found that there was no such necessity, though it is our position that such finding, even if made, would be invalid and beyond the powers of the Commission.

It is obvious that the matter of incorporation of a railroad company does not stand in the category of ordinary "restraints, limitations and prohibitions of law"—the matter of its incorporation goes to the very existence of the corporation in the state in question, the foreign corporation having in fact no real existence except by the license or permission of the state of its incorporation and other states where it is permitted to operate (see 23 American Jurisprudence, pp. 27-28, 32-34).

By the same token, the provision of the Act to the effect that any power granted by the Section should be "deemed to be an addition to and in modification of its powers under its corporate charter" means that such amendments so created are to be considered co-extensive with, and limited to, the state of creation of the corporation in question.

**Texas case, relied upon by appellant company, does not support Appellant's contentions.**

Appellant relies heavily upon the case of *Texas v. United States* (292 U. S., 522, 78 L. Ed., 1402). It is submitted, however, that that case, when properly interpreted in the light of the narrow holding therein contained and in the light of the facts of this case as compared with the

facts there existing, is in reality authority for the appellees in the case at bar.

In that case, as found by the Court, the question really involved was as to the maintenance of the "general offices" of the company in the State of Texas, it appearing that the general offices had for years been maintained elsewhere, and it did not involve the public or principal office of the company. In that case, the record showed that the net income of the company varied between the years 1926 and 1931 from no income in 1931, \$95,655 in 1930, and a maximum in 1928 of \$598,172, whereas the maintenance of the "general offices" would require an annual necessary expense of approximately \$81,100 a year (see 78 L. Ed., Page 1407), and the company itself conceded that notwithstanding its claim to relief from the obligation to maintain its "general offices" in Texas, it would still be liable to maintain "a public office or place in this State for the transaction of its business, where transfers of stock shall be made, and where shall be kept for inspection by the stockholders of such corporations, books, in which shall be recorded the amount of capital stock subscribed, the name of stockholders, etc., and transfers, the amount of its assets and liabilities, and the names and places of residence of its officers." (See 78 L. Ed., Page 1409.)

Counsel for applicant company also conceded in effect that the lease in question required the Texas company to maintain its principal office in Texas, as the Texas statute required (see 78 L. Ed., page 1410). This Honorable Court then concluded that in view of the narrow scope of the issue as so presented, the action of the Commission in approving the lease relieving the company of its obligation to maintain its "general offices" in Texas should be approved, saying:



" \* \* \* In view of the disclaimer on behalf of the United States and the Interstate Commerce Commission, and the interpretation placed upon the provision in the lease, we assume that the question before us merely related to the abandonment or removal of 'general offices', shops, etc., as distinguished from the 'public office' required by the Texas statutes, that is, to those transportation facilities the continued maintenance of which, in the circumstances described by the findings of the Commission, would entail unnecessary and burdensome expenditures in operation. As thus construed, we find no ground for concluding that the approval of the provision in the lease was beyond the Commission's authority. There is no interference with the supervision of the State over the lessor in matters essentially of state concern, as distinguished from the operations in which their effect upon interstate commerce are of national concern."

78 L. Ed., Page 1410.

There was in that case no question involved as to the relieving of the Texas Company from any obligation to take out a Texas charter and in fact the decision expressly recognized the obligation of the company to maintain a "public office", that is "its principal office", in Texas, as the Texas statute required, for the convenience of the state and citizens of Texas. The decision also recognized the right of the state to exercise supervision of a railroad company in the matters essentially of state concern.

In the case at bar it is submitted that an initial total outlay of \$71,800 and a continuing expense thereafter of \$1,000 per year could not be deemed excessive. It would seem that the expense incident to the maintaining of the public or principal office of that company in the State of Texas would have required a much greater expense than that involved in the case at bar.



In that case also, as already pointed out, this Court noted that "railroad corporations were left under state charters". This Court further referred to the case of *International and G. N. R. Co. v. Anderson County* (246 U. S., 424, 62 L. Ed., 807), in which the state court had found upon the verdict of a jury that the maintenance of the offices and shops involved would not impose an undue burden upon interstate commerce, saying that this was "a finding which this court found no reason to disturb", thereby showing that this court does give weight to the finding of the State court on the question of undue burden upon interstate commerce. It is submitted that upon a careful analysis the above-mentioned *Texas Case* does not in reality support appellant's position in the case at bar.

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**Powers of corporations limited to states by which created.**

It is settled by cases too numerous to require citation that while Congress has supreme power to regulate interstate commerce, nevertheless the states do have power to make regulations which may affect interstate commerce, provided such regulations are not excessive and do not create an undue burden thereon. It is in pursuance of this power that the many instances in which the regulatory power of the states over corporations engaged in interstate commerce have been upheld and approved by this Honorable Court. The states have, and must have, in the exercise of their police power and for the benefit of their citizens the right to regulate all corporations, in certain instances, operating within their boundaries.

The requirement that railroad corporations shall take out state charters in the State of South Carolina is an exercise of this type of power, this type of power generally

being defined as falling within the police powers. This Court has repeatedly recognized that it is in the public interest that the right of the states to make such regulations should be continued and not disturbed.

"Sec. 30. **Power to Regulate.**—The basis of governmental power to regulate railroads lies in the public interest pertaining to them, their character as common carriers, their role as public highways, their danger to life and property, the police power of the state, and, in the case of Congress, its interstate commerce power. . . ."

44 American Jurisprudence, Pp. 242-243.

In the case at bar, the Interstate Commerce Commission undertook to travel beyond, and outside of, the scope of its true powers and to interpret and construe the law in the light of its construction of the decision in the above-cited *Texas case*. Having first found in effect that to require the corporation to comply with the South Carolina statutes by being incorporated in South Carolina and thereafter consolidating with the Virginia corporation would not be unduly burdensome (R., P. 112; F. 445), the Commission then undertook, upon its interpretation of the said *Texas Case* to ascertain what it understood to be the policy of Congress and to say what would not accord with the national transportation policy. In this respect it is submitted that the Commission went entirely out of its sphere and proper field. This expression of its opinion as to the national policy, it is submitted, was beyond the power conferred upon it by the Interstate Commerce Act or by the Transportation Act and was a nullity.

The foregoing principles, it is submitted, are fully supported by authority and indeed might be classed as

elementary. The general rule is thus stated in 23 American Jurisprudence:

**"Sec. 15. Generally. \* \* \***

"With respect to governing rules in the law of foreign corporations, it must be constantly borne in mind that no state has the power to create corporations, or to regulate their powers, or to authorize the exercise of corporate franchises, in other states. It may confer powers, in the nature of a commission, to be exercised anywhere, on condition that their exercise be assented to by the state or sovereignty where their exercise is sought; but without this assent, express or implied, such powers would be nugatory outside the state granting them. This is on the principle that the laws of a state can have no binding force, *proprio vigore*, outside the territorial limits and jurisdiction of such state. No rule of comity will allow one state to charter corporations to operate in another state unless there is willingness on the part of the foreign state that it should be so. \* \* \*

**"Sec. 16. Doctrine Confining Corporate Existence to Incorporating Sovereignty.**—In the American law of foreign corporations, it is a well-recognized and probably, as properly construed, a basic doctrine that a corporation can have no legal existence out of the boundaries of the sovereignty by which it is created. This doctrine is founded upon the consideration of the nature of a corporation as an artificial being, invisible and intangible, existing only in contemplation of law and, by the force of law. Where that law ceases to operate, therefore, and is no longer obligatory, the corporation can have no existence."

23 American Jurisprudence, Pp. 27-28.

## II

Interstate Commerce Commission did not really find Appellant Company should be relieved from compliance with state law as to incorporation.

It is also submitted (a) that the Interstate Commerce Commission did not really intend to find that it was necessary, as contemplated under the Interstate Commerce Act, in order to enable the appellant company to carry out its order, for the appellant company to be relieved of the requirement of the South Carolina Constitution and Statute as to incorporating under the laws of the State, but (b) if it did so intend to find, its other findings contained in its Report and Order show that such alleged finding of necessity was arbitrary and unreasonable and hence void.

The Commission's findings on this subject are incorporated in the record at pages 108-113.

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(A)

The Commission first found that there were two ways of complying with the South Carolina requirements either (a) by forming a separate subsidiary corporation, or (b) by forming a separate South Carolina corporation and then consolidating that corporation with itself (R. P. 110, ff. 436-437), and that the expense of the latter course would require "an initial outlay estimated at \$71,800.00 and a continuing expense estimated at approximately \$1,000.00 a year". The Commission also commented upon certain other state requirements as to cumulative voting, and then used this significant language: "It is argued that the restrictions imposed upon foreign railroad corporations by the constitution and statutes of South Carolina constitute a burden on interstate commerce which we have full power under the provisions of section 5, of the act to override. . . ." (R. P. 111). It then commented upon the fact that the total operating revenues assigned in 1945 to the 736 miles of system located in South Carolina amounted to over \$25,000,000, and said that it would be an unneces-



sary and undue burden on interstate commerce to require of the company the first possible course, involving an initial expense of over \$300,000, but was "not so clear, however, that the cost of organizing a corporation under the laws of South Carolina to acquire the properties in that State and thereafter consolidate the South Carolina corporation with the Virginia corporation, viz, \$71,800, or the cost of maintaining the consolidated corporation as a South Carolina corporation, viz, \$1,000 a year, would be unduly burdensome." (R. pp. 111-112).

The Commission then, after referring to the *Texas case*, and expressing its opinion as to what would accord with the national transportation policy as it found the same to be, concluded this section by saying that the "provisions of section 5(11) will relieve the new company of the restraints, limitations and prohibition of State law **only insofar as may be necessary to enable it to carry into effect the transactions approved and provided for**, in accordance with the terms and conditions which we impose, \* \* \* (R. p. 113).

We submit that the foregoing finding of the Commission, taken as a whole, amounts to a positive finding that the cost of complying with the South Carolina Constitution and Statutes **would not be an undue burden upon interstate commerce**. It is submitted that it was not the purpose and intent by said finding directly to relieve the company of its obligation to comply with such requirement. At most, it was an invitation to the company to go into some appropriate court, as the company afterwards did, to seek some relief and to show therein that in fact such relief was "necessary to enable it to carry into effect the transactions approved and provided for". This is apparently the course pursued by the appellant company in the case at bar, since the company, after having obtained such order, and with



the expression from the Commission as to its views of national policy, instituted this suit for the apparent purpose of obtaining such judicial relief.

(B)

It is submitted, however, that even if the Commission intended so to relieve the appellant company, such finding was in conflict with the record itself and with the Commission's other findings, was in effect arbitrary, as well as unauthorized, and hence should be disregarded.

The Commission had already found that the annual revenues assigned to the portion of the system located in South Carolina amounted to over \$25,000,000, the total assets of the company (R. pp. 123-124) amounted to \$233,509,697, the annual expenses and the reorganization expense of the company amounted to millions of dollars, and it must be too apparent for argument, that a total initial expense of only \$71,800, with a continuing annual expense thereafter of only \$1,000 a year could not constitute any undue burden upon interstate commerce. As found by the South Carolina Supreme Court, such an outlay, in view of the assets and revenues of the company, must be considered negligible. Certainly such an outlay and continuing expense could not be considered excessive. If such expense should be considered excessive and an undue burden upon interstate commerce, then of course the right of states even to tax corporations engaged in interstate commerce must be considered as destroyed. In this connection also it is to be noted that the agreement between the Reorganization Committee and the appellant company expressly provided that the company use its best efforts to become qualified, so far as required by law, to "own property and carry

on its business in all of the states where the property to be acquired . . . is located". (R. p. 47, f. 187).

It is submitted that the decision of the South Carolina Supreme Court, being, as that Court was, familiar with the South Carolina statutes and conditions on this point, is entitled to great weight and should be followed by this Honorable Court.

In appellant's argument from time to time (pp. 6-35) (See *Broad River Power Co. v. S. C.*, 281 U. S., 537, 75 L. Ed., 1023; 282 U. S., 187, 75 L. Ed., 287), it is suggested that the findings and order of the Commission were not subject to review by the South Carolina Supreme Court. In reply to this argument, however, we call attention not only to the decision of the South Carolina Supreme Court itself to the effect that it was conceded that the court had jurisdiction to determine whether the order of the Commission was valid or invalid, but we quote here below some of the more striking headnotes of the argument filed by the appellant company on the re-argument in the Supreme Court of South Carolina:

"II.

"Rights arising under Federal statutes may be enforced, as of right, in the courts of the states when their jurisdiction, as prescribed by local laws, is adequate to the occasion." (P. 5)

"III

"(3)

"This Court Has Jurisdiction to Determine Whether the Order of the Commission Was a Valid or Invalid Exercise of Power Under Section 5 of the Interstate Commerce Act." (P. 26)

#### “IV

“Recent Federal Statutes Have Encouraged the Jurisdiction of State Courts to First Decide Questions Relating to the Validity, Application and Construction of State Statutes.” (P. 35)

All of the above points were elaborately argued by the appellant in the court below and many cases, including cases from this Honorable Court, were cited in support of the contentions therein contained.

For the appellant now to contend that the South Carolina Supreme Court was without power to review the findings of the Interstate Commerce Commission, it would seem to us amounts to trifling with that Court.

#### III

No merit in Appellant Company's contention that it is relieved from complying with State law as to incorporate irrespective of report of Interstate Commerce Commission.

It is also submitted that there is no merit, under the facts of this case, in appellant's contention that appellant is not required to comply with the South Carolina constitutional and statutory requirements irrespective of the order and findings of the Interstate Commerce Commission.

---

Appellant advances the argument in its last three points (Pp. 35-49) that irrespective of the order and findings of the Interstate Commerce Commission, it is nevertheless relieved from compliance with the South Carolina constitutional and statutory requirements.

In answer to this contention, in the first place, it is to be noted that this position was not really relied upon in the complaint, as originally filed, which was based almost entirely upon the theory that under the order and findings

of the Interstate Commerce Commission, appellant was relieved from such compliance (See R. Pp. 2-18), but was first advanced in the demurrer (R. P. 150), and without any such specifications as are now alleged in the argument. The points raised in appellant's argument under points 3 and 5 do not seem to have been specified or argued or considered or pressed at all in the printed arguments before the South Carolina Supreme Court. Hence it is submitted that it is now unfair to the South Carolina Supreme Court for appellant to make such contentions, and they should not be considered by this Court under well established principles.

---

It is submitted, however, that there is no real merit in these contentions and that the cases relied upon by the appellant in support of such contentions show of themselves their inapplicability to this situation.

Point No. 3 (pp. 35-40) argues in effect that the appellant is an instrumentality of the federal government and hence can not be restricted by the State of South Carolina. If in fact appellant were an agency of the federal government, we might concede the validity of the argument (Cf. 44 American Jurisprudence, pp. 223-224), but in the case at bar, it is submitted that there is no evidence to show that the appellant company is an agency or instrumentality of the federal government. It is to be noted that the case of *Stockton v. Baltimore & N. Y. R. Co.*, (32 Fed. 9, C. C. N. J.) dealt with an Act of Congress which had expressly authorized the construction and maintenance of a railroad bridge across the Staten Island Sound to the New Jersey shore, and, of course, this direct and express Congressional authorization served to distinguish that case from the case at bar.

Moreover, as we have already pointed out, the State of South Carolina is not undertaking to prohibit the appellant company from operating in the State of South Carolina but merely seeking to require the appellant company to comply with its regulations and statutes relating to its corporate existence and designed to protect the welfare and well-being of the State and its citizens, and which requirements can be complied with by the appellant company at relatively trifling expense.

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\*Point No. 4 of Appellant's argument (pp. 41-48), contends in effect that the South Carolina constitutional and statutory requirements are void in and of themselves because they relate to a railroad corporation engaged in interstate commerce as well as in intrastate commerce.

It is submitted that there is no real merit in this contention as applied to the facts of this case. On this point it should be observed, of course, that the appellant company is engaged not only in interstate commerce but it is also engaged in intrastate commerce in the State of South Carolina.

Also, it is to be noted, as we have already pointed out, that the South Carolina statutes do not in reality undertake to exclude foreign railroad corporations from operating in the State but rather to provide a method whereby, by consolidating with the South Carolina corporation, they may do business in the State. This point is borne out and emphasized by the caption of the statutory provisions complained of by the appellant company, such captions being "Requisites for Obtaining Charters" (Section 7777), "How Foreign Railroad Corporations May Do Business in this State" (Section 7778); also, Section 8285 (see appellant's argument pp. 55-56) of the Code provides ex-



pressly how railroad corporations may merge and consolidate and do business in the State, and Section 7764 provides for rights and privileges granted to foreign corporations. The requirement that a railroad corporation shall also take out a charter or be merged with a South Carolina corporation, is merely an additional requirement placed upon railroad corporations.

It is, we believe, universally conceded that foreign corporations, even though engaged in interstate commerce, may be subjected to certain reasonable restrictions and conditions enacted for the welfare of the state and its citizens. This is particularly true as to laws relating to the corporate existence of the corporation in question. The whole question turns upon whether such conditions or restrictions constitute an undue burden upon interstate commerce, and, of course, it is conceded that foreign corporations engaged in interstate commerce, as such, can not be absolutely excluded from operating in interstate commerce by any state regulation, but no such question is presented in this case.

It is submitted that as a matter of public policy and reason the fact that the company is to be engaged in intrastate commerce is sufficient reason to require it to take out a South Carolina charter, and the decision of the South Carolina Supreme Court construing its own statutes should be followed by this Court.

---

Point No. 5 of appellant's argument (pp. 48-49) contends that the South Carolina constitutional and statutory requirements involved in this case are void as being in discrimination against railroad corporations as compared to other foreign corporations.

It is submitted, however, that there is no real merit in this point. It is settled by many authorities that the states have a wide power of classification and it must be apparent that railroad corporations have many distinguishing characteristics from practically every other type of corporations. Hence, it is submitted that this classification is valid.

This point is fully sustained by the authorities. In 44 American Jurisprudence it is said:

“Sec. 31. **Differences of Treatment and Discrimination in Regulation.**—By familiar principles, a legislature may make reasonable classification among railroads in legislating with respect to them. Such a course involves no denial of the equal protection of the laws. But, of course, unreasonable classification cannot be sustained. . . .

“The basis of power of regulation set forth in the preceding section also constitutes a basis for difference of treatment of railroads from that accorded other persons, where the difference of treatment is germane to the basis of the power. Such classification of railroads does not deny to them the equal protection of the laws. . . .”

44 American Jurisprudence, pp. 244-245.

Citing:

*Chicago & A. R. Co. v. Tranbarger*, 238 U. S. 67,  
59 L. Ed. 1204, 35 S. Ct. 678;

*Charlotte C. & A. R. Co. v. Gibbes*, 142 U. S. 386,  
35 L. Ed. 1051, 12 S. Ct. 255;

*State v. Atlantic Coast Line R. Co.*, 56 Fla. 617,  
47 So. 969, 32 L. R. A. (N. S.) 630;

*Cleveland, C. C. & St. L. R. Co. v. Schuler*, 182 Ind.  
57, 105 N. E. 567, L. R. A. 1915A 884;

*McGuire v. Chicago B. & Q. R. Co.*, 131 Iowa 340,  
108 N. W. 903, 33 L. R. A. (N. S.) 706.

## IV

South Carolina statutory and constitutional requirements a valid exercise of State's power over the corporate existence of foreign corporations engaged in both intrastate and interstate commerce.

Finally, it is submitted that the South Carolina constitutional and statutory requirements for the incorporation of railroad corporations under the laws of the State of South Carolina is a valid exercise of the state's regulatory power over corporations doing business within the state and hence should be upheld by this Honorable Court. As we have already pointed out in this case and as was held in the case of *Panhandle Eastern Pipe Line Company v. The Public Service Commission of Indiana* (decided December 15, 1947), the states have a wide power of regulation over corporations doing business within their boundaries and the states' power is excluded only where Congress has expressly occupied the field. See also to the same effect: *Prudential Insurance Co. v. Benjamin*, (328 U. S., 408) and *Power Commission v. Hope Gas Co.*, (320 U. S., 591).

As a matter of fact, railroad corporations have a very peculiar history in the life of each of the states. In many cases their construction has been aided by municipalities and by the states and their growth is inter-twined very closely with the life of the community. There are many special and peculiar reasons why railroad corporations may, in the interest of the state and its citizens, be required to take out charters under state laws and to be subject in a special sense to the state laws regulating corporations.

It is of course conceded that Congress has supreme power, if it sees fit, to relieve such corporations when engaged in interstate commerce from compliance with any

such state requirements, but the Congress has not in fact seen fit to do so, though it must be presumed to have realized that the chartering of railroad corporations was a matter left entirely to the several states.

Finally, it is submitted that the fact that the appellant company is to be engaged in intrastate as well as interstate commerce is abundant and sufficient justification for the requirement that it take out its charter under South Carolina laws, and the South Carolina Supreme Court's decisions construing its own statutes upon that point should be followed by this Honorable Court.

The construction of franchises enjoyed under state statutes is primarily a state matter, involving no Federal question.

*Louisville & N. R. Co. v. Palmes*, 109 U. S. 244,  
27 L. Ed. 922, 3 Sup. Ct. 193;

*Nickel v. Cole*, 256 U. S. 222, 225, 65 L. Ed. 899,  
905, 41 S. Ct. 467;

*Vandalia R. Co. v. Indiana*, 207 U. S. 359, 367, 52  
L. Ed. 246, 248, 28 S. Ct. 130;

*Fox River Paper Co. v. Railroad Commission*, 274  
U. S. 657, 71 L. Ed. 1283, 47 S. Ct. 669;

*Enterprise Irrig. Dist. v. Farmers Mut. Canal Co.*,  
243 U. S. 157, 164, 61 L. ed. 644, 648, 37 S. Ct.  
318;

*Leathe v. Thomas*, 207 U. S. 93, 52 L. ed. 118, 28  
S. Ct. 30;

*Sauer v. New York*, 206 U. S. 536, 51 L. ed. 1176,  
27 S. Ct. 686;

*Consumers' Co. v. Hatch*, 224 U. S. 148, 56 L. ed.  
703, 32 S. Ct. 465;

*Long Sault Development Co. v. Call*, 242 U. S. 272,  
61 L. Ed. 294, 37 S. Ct. 79.

**CONCLUSION**

For all the foregoing reasons, it is earnestly and respectfully submitted that the decision of the South Carolina Supreme Court should be affirmed and the appeal should be dismissed.

Respectfully submitted,

**JOHN M. DANIEL,**

Attorney General,

**IRVINE F. BELSER,**

Assistant Attorney General,

**T. C. CALLISON,**

Assistant Attorney General,

Counsel for Appellees.



FILE COPY

Supreme Court of the United States

No. 390

SEABOARD AIR LINE RAILROAD COMPANY,  
APPELLANT,

*versus*

JOHN M. DANIEL, AS ATTORNEY GENERAL OF THE STATE OF  
SOUTH CAROLINA; AND W. P. BLACKWELL, AS SECRE-  
TARY OF THE STATE OF SOUTH CAROLINA, APPELLEES.

APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA

**SUPPLEMENTAL STATEMENT BY APPELLEES**  
(In Response to Request from the Court)

JOHN M. DANIEL,  
Attorney General,

T. C. CALLISON,  
Assistant Attorney General:

IRVINE E. BELSER,  
Counsel for Appellees.

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APPEAL FROM THE SUPREME COURT OF THE STATE OF SOUTH  
CAROLINA

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## **SUPPLEMENTAL STATEMENT BY APPELLEES** (In Response to Request from the Court)

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### **STATEMENT AS TO BENEFITS AND ADVANTAGES** (In Response to Request from the Court)

*To the Honorable Supreme Court of the United States:*

In response to the request from this Court as to a statement of the benefits and advantages to the State of South Carolina and its citizens from the South Carolina constitu-

tional and statutory requirement that railroad corporations be chartered under the laws of the State of South Carolina, counsel for the appellees respectfully submit:

The benefits and advantages to the State of South Carolina, and its citizens, from the requirement involved, largely flow from the constitutional and statutory provisions regulating corporations, and from the decisions construing such provisions. For the convenience of this Court, we are attaching hereto as an Appendix, the paragraph headings of the principal provisions of the Constitution and the Code, from which this Court can see the many benefits and advantages which accrue to the State of South Carolina from the requirement that all railroad corporations be chartered under the laws of the State of South Carolina.

Said statutory provisions are embodied in:

Chapter 153, entitled "PRIVATE CORPORATIONS", which is subdivided into: Article 1, "General Provisions" (see Sections 7676-7725); Article 2, "Business Corporations" (see Sections 7726-7756); Article 3, "Merger and Consolidation of Corporations" (see Sections 7757-7763);

Chapter 154, entitled "FOREIGN CORPORATIONS", (see Sections 7764-7790);

Chapter 156, entitled "RAILROAD, STEAMBOAT AND CANAL COMPANIES" (see Sections 8179-8198);

Chapter 160, entitled "GENERAL RAILROAD LAW", which is divided into: Article 1, "General Provisions" (see Sections 8254-8275); Article 2, "Incorporation and Operation by Purchaser of Railroad" (see Sections 8276-8284); Article 3, "Consolidation and Aiding of Other Companies" (see Sections 8285-8292.5); Article 4 (Jurisdiction of The Public Service Commission" (see Sections 8292-11-8292-27); Article 5, "Rates, Charges and Regula-

tions" (see Sections 8293-8349); Article 6, "Safety Appliances and Liability for Injuries and Damages" (see Sections 8350-8394); Article 7, "Carriage of Passengers and Goods", (see Sections 8395-8428; Article 8, "Crossings and Cattle Guards" (see Sections 8429-8436); Article 9, "Rights of Way" (see Sections 8437-8450); Article 10 (Penalties and Forfeitures" (see Sections 8451-8461);

Chapter 160-A, entitled "Grade Crossings and Grade Separation Structures Across Railroad Tracks" (see Sections 8462-8478);

South Carolina Code of Civil Procedure (see Section 434), "Summons—Service"; (see Section 527) "Property of foreign corporations, and of non-resident, absconding, or concealed defendants, may be attached".

State Constitution of 1895, Article IX, entitled "CORPORATIONS" (see Sections 1-21).

We respectfully invite this Honorable Court's attention to the paragraph headings of said sections contained in the said Appendix hereto attached.

The said benefits and advantages are too numerous to discuss in detail, but may be classified into the following classes:

## I

### **GREATER FACILITY OF CONTROL AND REGULATION**

In this connection, we call particular attention to the following sections of

Chapter 132, Sections 8173, 8186, 8194, 8195, 8197-1;

Chapter 160, Sections 8256, 8263, 8264, 8268, 8272, 8276, 8277, 8285, 8289, 8292, 8292-3, 8292-12, 8292-13, 8292-



20, 8292-27, 8300, 8304, 8308, 8313, 8314, 8326, 8339, 8341, 8342, 8356, 8374-2, 8375, 8380, 8387, 8395, 8396, 8401, 8405, 8415, 8418, 8427, 8430, 8438, 8440, 8444, 8447, 8450, 8455, 8461, 8462.

We particularly call attention to the provisions of Section 8292, entitled "Annual reports of railroads—blanks—defective reports—transmitting report to Governor"; and Section 8292-27, entitled "Investigation of books and papers—agents and employees—delegation of powers—penalties". In this connection we desire to say that as counsel for the State of South Carolina, we have had considerable experience in investigating the rights and in the regulation of public utilities, and we are satisfied that the State of South Carolina enjoys much better advantages for the purpose of regulation if the corporation is chartered under the laws of the State of South Carolina.

Also, we call attention to Section 8341, entitled, "Mandamus to require compliance—punishment for disobedience—costs and counsel fees." This section in effect provides a remedy whereby railroad corporations chartered in this state can be required to comply with their statutory and charter duties and allows the parties instituting suit to recover their costs, including counsel fees. (see *State of South Carolina v. Broad River Power Company*, 164 S. C., 208). Also, along this line we call attention to the provisions of Section 7676 of the Code entitled "All charters subject to amendment or repeal", to the effect that "it shall be deemed part of the charter of every corporation created under the provisions of any general law \* \* \* that such charter and every amendment and renewal thereof shall always remain subject to amendment, alteration or repeal by the General Assembly."

## II

### **STATE CONTROL OF THE INTERNAL ORGANIZATION AND MANAGEMENT OF THE CORPORATION**

Among the advantages to the State of South Carolina is that the State and its citizens will have the right to control the internal organization and management of the corporation, as provided by the Code. This gives the State of South Carolina and such of its citizens as may wish to become stockholders of the railroad corporations operating in this State the right to have some say-so as to the methods and procedure by which such corporations may be organized, operated and/or dissolved. In this connection we call particular attention to the following Sections of Chapter 153, entitled "PRIVATE CORPORATIONS": 7680, 7690, 7692, 7697, 7699, 7700, 7704, 7709, 7710, 7711, 7724-1, 7724-2, 7724-3, 7738, 7739, 7750, 7751, 7757.

In this connection we call attention to the provisions of Section 7790 to the effect that no corporation controlled by aliens can own more than 500 acres of land in this state.

## III

### **RIGHT OF CONDEMNATION WITH CORRELATIVE RIGHT OF JUST COMPENSATION**

Also important in this connection is the right of railroad corporations, chartered under the laws of this State, to condemn land for railroad purposes, coupled with the corresponding obligation of the corporations to make just compensation to the land owners whose lands are so taken. See particularly on this point Sections 8438, 8440, 8444, 8447, 8450 of Chapter 160 of the South Carolina Code of 1942.

It is submitted that the right of condemnation which is a valuable right to a railroad corporation as a public service corporation should be correlative to the obligation of such corporations to take out a charter under the South Carolina laws and be correspondingly amenable both to the laws of the State regulating internal management and the laws of the State designed to promote better regulation.

#### IV

#### FREEDOM FROM ATTACHMENT

Also, among the benefits and advantages is that any domestic corporation, including a domestic railroad corporation, is exempt from the provisions of the Code of Civil Procedure, providing in effect that the property of all foreign corporations in this State is subject to attachment as a basis for service of process and jurisdiction of the Courts of the State (see S. C. Code of 1942, Section 527). The benefit of this exemption is not available to a corporation which has merely filed domestication papers (see *Pelzer Mfg. Co. v. Pitts*, 76 S. C. 349, 57 S. E. 29; see, however, *Whitfield v. Hovey*, 30 S. C. 117, 8 S. E. 840).

This is a benefit both to the corporation and also to the State of South Carolina and its citizens, insofar as it tends to facilitate the operations of the company as a public service corporation.

#### V

#### GREATER FEES TO THE STATE OF SOUTH CAROLINA

In this connection it also may be mentioned, though we do not consider this one of the major benefits and advantages, that the fees provided for the State of South Carolina to be paid by corporations taking out South Carolina

charters are greater (see Sections 7690, 7738) than the fees provided for foreign corporations merely filing the stipulations and taking out domestication papers. (see Sections 7765, 7767).

### OTHER CONSIDERATIONS

In this connection also it is to be noted that while the right of railroad corporations to make mortgages of their property, is expressly recognized by the South Carolina Code (Section 8282), it is further provided that the purchasers of such railroads under such mortgages or deeds of trust may form a corporation (Section 8276) and must reorganize and continue to operate the railroad (Section 8278).

It is submitted therefore that concomitant with the advantages initially granted to the railroads operating in the State of South Carolina was the obligation which should be treated as a part of its charter (Section 7476) that in case of a sale of its assets under mortgage, the purchaser should reorganize as a South Carolina corporation.

Also, it is to be noted that the South Carolina requirement that railroads be organized under the laws of the State of South Carolina does not amount to a deprivation of the company's right of removal to the Federal Courts as a foreign corporation, but on the contrary, the requirement and provision for the consolidation of a foreign corporation with a domestic corporation amounts merely to an adoption of such railroad corporation and does not prevent its right of removal (see *Calvert v. Southern Ry. Co.*, 64 S. C., 139, 36 S. E., 750; *Wilson v. Southern Railway Co.*, 64 S. C., 162, 41 S. E., 971).

In this connection also, we call attention to the fact that it was alleged in the Answer filed by the appellees in this case that the company is engaged in both intrastate and interstate operations and that if relief prayed for by it was

granted, the State and its citizens would be "denied many of the rights and privileges" to which they are entitled and that "the best interest of the State of South Carolina and its citizens will be served" by requiring the appellant to comply with the South Carolina statutory and constitutional provisions (see Tr., pp. 114-145), which allegations were admitted by appellant's demurrer. The South Carolina Supreme Court has upheld the position of appellees in this case, and it is submitted that there is certainly sufficient justification for the State courts finding on this point so that this Court will not review such finding (see *Broad River Power Company v. South Carolina*, 282 U. S., 187, 75 L. Ed., 287).

Also, we call attention to the fact that many of the foregoing benefits and advantages to the State of South Carolina and its citizens flowing from the regulations listed, even though they affect interstate commerce, are such that they will be recognized and enforced by this Honorable Court (see *S. C. Highway Department v. Barnwell Brothers*, 82 L. Ed., 734; and see particularly the many cases cited in the report of the above case in 82 L. Ed., Pp. 740-741, on this point).

It is unthinkable to us that a question of such gravity and importance as that here involved should be determinable by a federal commission such as the Interstate Commerce Commission in a proceeding such as that considered in this case.

Respectfully submitted,

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- Sec. 8478. Appeal by railroad company.
- 1942 Code of Laws of South Carolina, Vol. 4, Pp. 749-867.*

## **SOUTH CAROLINA CODE OF CIVIL PROCEDURE**

- Sec. 434. Summons—Service.
- 1942 Code of Laws of South Carolina, Vol. 4, Page 287.*
- Sec. 527. Property of foreign corporations, and of non-resident, absconding or concealed defendants; may be attached.
- 1942 Code of Laws of South Carolina, Vol. 4, Page 380.*

## **STATE CONSTITUTION OF 1895**

### **Article IX—Corporations**

- Sec. 1. Corporation defined.
- Sec. 2. Charter of incorporation.
- Sec. 3. Transporting and transmitting corporations taxed as such—common law liability.
- Sec. 4. Agent of corporation—office.
- Sec. 5. Discrimination in charges.



- Sec. 6. Transportation company may connect or cross lines of another.
- Sec. 7. Consolidation of stock with competing line—jury may decide whether lines are parallel or competing.
- Sec. 8. No foreign corporation can build or operate a railroad in this State—no general or special law for foreign corporation, except on conditions.
- Sec. 9. Banks,
- Sec. 10. Stock issued for money or labor.
- Sec. 11. Election of officers of corporations.
- Sec. 12. Business of corporations.
- Sec. 13. Trusts, combinations, etc.
- Sec. 14. The public service commission.
- Sec. 15. Rights and remedies of employees.
- Sec. 16. Existing charters.
- Sec. 17. Laws for benefit of corporation passed only on conditions.
- Sec. 18. Liability of stockholders.
- Sec. 19. Corporations cannot do act prohibited through controlling interest in other corporations.
- Sec. 20. Right of way.
- Sec. 21. Provisions not self-executing.

# SUPREME COURT OF THE UNITED STATES

No. 390.—OCTOBER TERM, 1947.

Seaboard Air Line Railroad Company,  
Appellant,

v.

John M. Daniel, as Attorney General  
of the State of South Carolina, and  
W. P. Blackwell, as Secretary of the  
State of South Carolina, Appellees.

Appeal from the  
Supreme Court  
of the State of  
South Carolina.

[February 16, 1948.]

MR. JUSTICE BLACK delivered the opinion of the Court.

The constitution and statutes of South Carolina provide that railroad lines within that State can be owned and operated only by state created corporations; a railroad corporation chartered only under the laws of another state is forbidden under heavy penalties to exercise such powers within South Carolina.<sup>1</sup> There is a way, however, in which a foreign railroad corporation may, under South Carolina statutes, indirectly exercise some powers over its South Carolina operations. It may organize a South Carolina subsidiary. In addition, it may, under South Carolina law, consolidate that corporation with itself. In that event, so far as South Carolina statutes can govern, the consolidated result would be a corporation both of South Carolina and of another state.<sup>2</sup>

In 1946 the appellant, Seaboard Air Line Railroad Company, with the approval of the Interstate Commerce Commission, succeeded to the ownership and operation of a

<sup>1</sup> S. C. Const. Art. 9, § 8; S. C. Code Ann. § 7784 (1942). Violations are punishable by fines of \$500 for each county in which the railroad operates. Apparently each day's operation of the railroad constitutes a separate offense. The appellant in this suit operates in 30 South Carolina counties.

<sup>2</sup> S. C. Const. Art. 9, § 8; S. C. Code Ann. §§ 7777, 7778, 7779, 7785, 7789 (1942). See *Giraty v. Atlantic Coast Line R. Co.*, 80 S. C. 355, 361, 60 S. E. 936, 937.

unitary railroad system with 4,200 railway miles in six southern states. Seven hundred and thirty-six miles of its lines traverse South Carolina connecting with its lines in adjoining states. Appellant is a Virginia created corporation, has no South Carolina subsidiary, and has effected no consolidation with a South Carolina created corporation. It is therefore subject to the penalties provided by South Carolina law if that law can validly be applied to it.

This action was brought by appellant in the South Carolina Supreme Court to enjoin the state attorney general from attempting to collect the statutory penalties from appellant or to enforce the statutory provisions against it.<sup>3</sup> The complaint alleged the following facts, about which there is no substantial dispute. Appellant applied to the Interstate Commerce Commission for approval of its purchase of the railway system pursuant to § 5 of the Interstate Commerce Act, as amended, 49 U. S. C. § 5. After notice to the Governor of South Carolina and others, the Commission conducted hearings and made a report in which it found that compliance by appellant with the South Carolina railroad corporation laws would result in "substantial delay and needless expense." It further found that compliance "would not be consistent with the public interest"—the criterion which § 5 required the Commission to use in passing upon a change in ownership or control of a railroad. The Commission then entered an order which authorized appellant, as a Virginia corporation, to own and operate the entire system including the South Carolina mileage. The complaint also asserted that the order, by explicit reference to

<sup>3</sup> The appellant also prayed for a mandamus to compel the Secretary of State to accept and file papers and documents tendered by appellant seeking authority to do business in the state as a foreign corporation under other South Carolina statutes. That phase of the case is not pressed here.

the Commission finding in its report, affirmatively authorized appellant to own and operate the entire railway system without complying with the South Carolina railroad corporation laws.\*

The answer to the complaint did not challenge the constitutional power of Congress to relieve appellant of compliance with South Carolina's requirements of state incorporation. It took the position that insofar as the Commission order could be interpreted as an attempt to override state laws in this respect it was void because outside the scope of the Commission's statutory authority. The appellant then filed a demurrer on the ground that the answer as a matter of law constituted neither a defense nor a counterclaim since it admitted all allegations of fact in the complaint, and advanced nothing more than erroneous legal conclusions as asserted reasons why appellant should not be granted the relief for which it prayed.

No evidence was taken and the State Supreme Court decided the case on the pleadings. That court construed the Commission's order as relieving appellant from compliance with the statutory and constitutional provisions in issue, but it agreed with the respondents that the Commission lacked power under §5 to enter such an order. Accordingly the State Supreme Court revoked the temporary restraining order it had previously issued, denied the requested injunction, and dismissed the complaint. — S. C. —, 43 S. E. 2d 839. The case is properly here on appeal under §237 (a) of the Judicial Code, as amended, 28 U. S. C. §344 (a).

*First.* The complaint largely relied on an order of the Interstate Commerce Commission as a basis for the relief

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\*The complaint also alleged, and it is argued here, that the state constitutional and statutory provisions imposed burdens on this interstate railroad in violation of the Commerce Clause of the Constitution of the United States. The view we take makes it unnecessary for us to pass on this contention.



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sought. The answer questioned the validity and scope of that order but did not seek a decree to set it aside or suspend it. Federal district courts have exclusive jurisdiction of suits to enjoin, set aside, annul or suspend an order of the Commission. In such suits the United States is an indispensable party. 28 U. S. C. § 46. Although the jurisdiction of the South Carolina Supreme Court was there conceded, and is not here challenged, we think it appropriate to pass upon it.

So far as the appellant's complaint is concerned, this is not the kind of action to "set aside" a Commission order of which the federal district courts have exclusive jurisdiction. While the action does involve the scope and validity of a Commission order, the relief requested in the complaint was the removal of an obstruction to the railroad's obedience to the order, not its suspension or annulment. Nor did the answer seek to have the enforcement of the order enjoined, although it did question its validity as a basis for the relief sought in the complaint.

The appellant was in this dilemma. Federal law required it to obey the order so long as it remained in effect; for a failure to abide by its terms serious federal penalties could be imposed on it. 49 U. S. C. §§ 10 (1), 16 (7), (8), (9), (10). On the other hand, South Carolina statutes provided penalties for obedience to the order, which South Carolina officials asserted were enforceable against appellant despite the Commission's order. There was thus a bona fide controversy between appellant and the state officials over the validity of the order. Appellant wanted to obey the order; the state officials insisted appellant must obey their statutes instead. Federal district courts have not been granted special jurisdiction to review and confirm orders of the Commission at the suit of railroads wishing to obey such orders.



Under the foregoing circumstances appellant was not compelled to wait until someone who had standing to attack the Commission's order might decide to seek its annulment in a federal district court. It properly sought relief from a court which could obtain jurisdiction of the parties whose refusal to recognize the order gave rise to its predicament. And the state court then had power, because of the issues raised by the complaint and because of the relief requested, to determine whether the order, properly interpreted, did exempt appellant from compliance with the state railroad corporation laws and, if so, whether the Commission had transcended its statutory authority in making the order. *Illinois Cent. R. Co. v. Public Utilities Comm'n.*, 245 U. S. 493, 502-505. See *Lambert Run Coal Co. v. Baltimore & O. R. Co.*, 258 U. S. 377, 381-382; *Central New England R. Co. v. Boston & A. R. Co.*, 279 U. S. 415, 420-421.

*Second.* It is here contended that the Commission's order did not manifest a clear purpose to authorize the exemption of appellant from obedience to the state's domestic corporation policy. We have no doubt that the Commission intended its order to have this effect. Its final order expressly stated that, subject to a condition not here relevant, it approved and authorized "the purchase . . . and the operation" by the appellant of the South Carolina and other railroad properties. Furthermore, the Commission discussed the South Carolina requirements in its report and therein made findings that compliance by appellant with them "would not be consistent with the public interest." These references were made to the South Carolina provisions, according to the Commission's report, in response to the appellant's suggestion that it would "avoid complications" if the Commission's report showed "on its face that our order is intended to override them."

*Third.* Respondents contend that the Commission lacked statutory authority to enter an order which would permit a Virginia corporation to operate these railroad lines in and through South Carolina contrary to that state's constitutional and legislative policy. They point to the broad powers states have always exercised in excluding foreign corporations and in admitting them within their borders upon conditions. They also emphasize the importance of this regulatory power to the states, and urge that, in the absence of express language requiring it, § 5 should be construed neither to restrict that state power nor to authorize the Commission to override state enactments. Recognizing the force of these arguments in general, we note the following circumstances which render them inapplicable in this case.

Congress has long made the maintenance and development of an economical and efficient railroad system a matter of primary national concern. Its legislation must be read with this purpose in mind. In keeping with this purpose Congress has often recognized that the nation's railroads should have sound corporate and financial structures and has taken appropriate steps to this end. The purchase of this very railroad by appellant resulted from extensive reorganization proceedings conducted by the Interstate Commerce Commission and federal district courts in accordance with congressional enactments applicable to railroads. In furtherance of this congressional policy these agencies approved reorganization plans which called for the purchase and operation of these properties, including the portion in South Carolina, by appellant, as a Virginia corporation.

This Court has previously approved a Commission order entered in a § 5 consolidation proceeding which granted a railroad relief from state laws analogous to the state requirements here. *Texas v. United States*, 292 U. S. 522 (1934). Most of the reasons which justified

the Commission's order in that case are equally applicable here. Furthermore, since that case was decided Congress has given additional proof of its purpose to grant adequate power to the Commission to override state laws which may interfere with efficient and economical railroad operation. By § 7 (11) of the Interstate Commerce Act of 1940, 54 Stat. 908, 49 U. S. C. § 5 (11), Congress granted the Commission "exclusive and plenary" authority in refusing or approving railroad consolidations, mergers, acquisitions, etc. The breadth of this grant of power can be understood only by reference to § 5 (2) (b) which authorizes the Commission to condition its approval "upon such terms and conditions and such modifications as it shall find to be just and reasonable." All of this power can be exercised in accordance with what the Commission may find to be "consistent with the public interest." The purchaser of railroad property with Commission approval is authorized by § 5 (11) "to own and operate any properties . . . acquired through said transaction without invoking any approval under State authority," and such an approved owner, according to that paragraph, is "relieved from the operation of the antitrust laws and of all other restraints, limitations, and prohibitions of law, Federal, State, or municipal, insofar as may be necessary to enable them to carry into effect the transaction so approved . . . and to hold, maintain and operate any properties . . . acquired through such transaction."

This language very clearly reposes power in the Commission to exempt railroads under a § 5 proceeding from state laws which bar them from operating in the state or impose conditions upon such operation. The state court nevertheless thought that the last sentence of § 5 (11) negated a congressional purpose to empower the Commission to relieve railroads from state laws such as South Carolina's. That sentence reads: "Nothing in this section shall be construed to create or provide for the

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creation, directly or indirectly, of a Federal corporation, but any power granted by this section to any carrier or other corporation shall be deemed to be in addition to and in modification of its powers under its corporate charter or under the laws of any State." We see nothing in this sentence that detracts from the broad powers granted the Commission by § 5. In fact, the language of the sentence appears to support the Commission's power here exercised. Although the sentence bars creation of a federal corporation, it clearly authorizes a railroad corporation to exercise the powers therein granted over and above those bestowed upon it by the state of its creation. These federally conferred powers can be exercised in the same manner as though they had been granted to a federally created corporation. See *California v. Central Pacific R. Co.*, 127 U. S. 1, 38, 40-45. Here, just as a federally created railroad corporation could for federal purposes operate in South Carolina, so can this Virginia corporation exercise its federally granted power to operate in that State.

Other arguments of respondent have been considered and found to be without merit. Appellant is entitled to the injunction it sought.

The judgment of the South Carolina Supreme Court denying the injunction and dismissing the complaint is reversed, and the cause is remanded to that court for proceedings not inconsistent with this opinion.

*Reversed and remanded.*